Help wanted: tax relief for Canada's poor: a brief on the proposed goods and services tax presented to the Standing Committee on Finance by the Nat. Council of Welfare

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HELP WANTED: TAX RELIEF FOR CANADA'S POOR

A Brief on the Proposed Goods and Services Tax Presented to the Standing Committee on Finance by the National Council of Welfare

Revised Version

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Introduction

How much tax should poor people pay? Five percent of their income; ten percent; even more?

This might seem like a preposterous question. Surely Canadians living in poverty - who, by definition, struggle to get by on inadequate incomes - should not be expected to pay tax. Why would the government provide badly-needed income support to low-income families and individuals through social programs such as welfare and child benefits, and then turn around and require them to pay back a chunk of their limited incomes through the tax system?

In point of fact, all poor Canadians do pay tax, many of them a substantial portion of their income. The working poor - those who get most of their income from wages but still remain under the poverty line - pay federal and provincial income taxes. All low-income households - both welfare recipients and the working poor - pay federal and provincial sales and excise taxes. They also pay some corporate income tax, since businesses pass along at least part of their corporate tax burden to consumers (in the form of higher prices) and employees (in the form of lower wages). Directly or indirectly (in their rents), the poor pay municipal property taxes as well.

We believe that poor Canadians should not be burdened with income and consumption taxes. The proposed Goods and Services tax could hold out some promise for reducing the tax burden on the poor - if it were properly designed. Unfortunately, as proposed in the August 1989 Technical Paper, the Goods and Services Tax will add to the tax burden of increasing numbers of low-income families as the years go by. The goal of a fairer tax system will fade further into the sunset.

Tax Reform - 1985 to 1990

Not only do the poor pay taxes, but their tax burden has grown appreciably heavier over the past five years. Despite the federal government's stated commitment to creating a fairer tax system, on balance its tax changes since 1985 have raised both income and consumption (i.e., sales and excise) taxes for the poor. Lower and middle-income Canadians have seen their disposable incomes cut as a result of these tax hikes, while upper-income taxpayers generally have fared better than the rest, thanks to more generous tax breaks.

The National Council of Welfare has tracked the Minister of Finance's various tax changes closely in a series of studies since 1985 (most notably in Testing Tax Reform, our September 1987 brief to this committee in response to the June 1987 White Paper on tax reform), so we will not tread the same ground here step by step. Rather, we will just review quickly the major developments to date, noting their effects on low-income Canadians and on the federal government's stated objective of a fairer tax system.

The 1985 budget eliminated the federal tax reduction (a form of tax relief which had eased the income taxes paid by taxpayers with below-average incomes), imposed surtaxes (a general surtax on all taxpayers, which is still in effect, and a temporary surtax on upper-income taxpayers) and shifted from full to partial indexation of personal exemptions and tax brackets. These changes particularly hurt taxpayers with below-average incomes, who experienced larger income tax increases relative to

better-off taxpayers, and pushed the taxpaying threshold - the income level above which taxfilers become taxpayers - further and further below the poverty line. Yet that same budget announced a tripling of the tax deduction for RRSP contributions (subsequently delayed several times) and the introduction of a new tax concession, the $500,000 capital gains exemption (subsequently trimmed to $100,000). These tax breaks favour well-off Canadians.

Phase I of tax reform in 1988 converted personal exemptions and most deductions to non-refundable credits - a fundamental and long-called-for reform which on its own would have produced a fairer, more progressive personal income tax system. But lowering the top marginal tax rate from 34 percent to 29 percent offset the conversion from exemptions and deductions to credits, so the large majority of upper-income taxpayers enjoyed generous tax cuts as a result, and the distribution of the overall income tax burden among income groups was virtually unchanged. Moreover, as part of its new child care strategy, the federal government doubled the child care expense deduction, another tax break which provides the largest tax savings to well-off parents. By keeping the 'new' income tax system only partially indexed, the Finance Minister ensured that income taxes - which dipped somewhat for most taxpayers from 1987 to 1988 - would rise again after 1989 as a result of inflation, while the taxpaying threshold - which rose from 1987 to 1988 - would begin moving back down the income ladder from 1989 on.

Doubtless the most significant change in terms of its long-term impact was the partial de-indexation of the income tax system. This is a fundamental shift in the very structure of the tax system which serves as a hidden, built-in tax-grabber which automatically raises taxes without taxpayers' knowledge. Partial

de-indexation is also a powerful revenue engine, adding many millions in extra revenue to federal coffers each year.

Table 1 at the end of the brief demonstrates the extremely regressive impact of these various income tax changes. We look at the case of three two-earner couples supporting two children. (All figures are expressed in constant 1989 dollars.) The working poor family earns $20,000 - $6,767 below the estimated low-income line for a family of four living in a city of 500,000 or more inhabitants. The middle-income family earns $49,000, and the upper-income family earns $123,000.

The working poor couple's total federal and provincial income taxes (after subtracting refundable child tax credits) went from $175 in 1984 to $839 in 1987, dipped slightly to $765 in 1988, then resumed their upward march to an estimated $822 in 1991 - for a 370-percent real increase since 1984. By contrast, the middle-income family's income tax burden rises by 17 percent from 1984 to 1991, while the well-off family's income tax bill actually falls by 6 percent.

Each federal budget since 1985 has brought increases in federal sales and/or excise taxes which have hit consumers at all income levels. While the introduction of the refundable sales tax credit in 1986 provided a new and welcome form of tax relief for poor consumers with incomes under $15,000, it was a modest benefit intended only to protect them from the increases in the federal sales tax, not to shield them from the full burden of that hidden tax. Since consumption taxes are regressive, lower-income Canadians just above the $15,000 threshold for the refundable sales tax credit have been hardest hit by the federal consumption tax increases. (In 1986, the poverty line for a

family of four living a city of 500,000 or more was $23,501, which is $8,501 above the $15,000 threshold for the maximum credit and $5,101 above the $18,400 point where the credit disappeared).

The refundable sales tax credit and its threshold have been raised to keep pace with further hikes in the federal sales tax since 1986. The sales tax credit for adults went from $50 per person in 1986 and 1987 to $70 in 1988 and $100 in 1989 and will go to $140 in 1990. The credit for children was $25 per child in 1986 and 1987, $35 in 1988 and $50 in 1989 and will be $70 in 1990. The income threshold above which the refundable sales tax credit is reduced (by five percent of net family income) went from $15,000 for 1986 and 1987 to $16,000 for 1988 and 1989 and will rise to $18,000 in 1990.

Canadians have been hit with provincial tax increases as well. Since all the provinces (except Quebec) and the territories base their income taxes on the federal income tax, the partial de-indexation of the federal income tax system since 1985 has automatically increased provincial income taxes. In addition, most provinces have raised their income tax rates. For instance, Ontario increased its provincial tax rate from 48 percent of basic federal tax in 1984 to 52 percent in 1989. Several provinces have brought in surtaxes. Some have raised their sales taxes. Only a few provinces - Ontario, Manitoba, Saskatchewan and Alberta - provide any form of tax relief for their low-income residents. Of course, provincial treasurers will argue that such tax increases are necessary to compensate for cuts in federal transfers to the provinces under the Established Programs Financing Act for health and post-secondary education and for

steady growth in demand for their programs and services, especially costly health services.

There is no mystery why the Minister of Finance has been so assiduous in raising both income and sales and excise taxes: tax increases have served as the chief weapon in the war against the deficit. While Ottawa has managed to hold the line on social spending (at about $45 billion since 1984-85) and to slightly reduce overall program spending - projected at $104 billion in 1990-91 or $3 billion less than what it was in real terms in 1984-85 - it has not made the deep spending cuts that some economists and business groups have called for. Instead, the Finance Minister has managed to slash the deficit by 43 percent (from $47 billion in 1984-85 to a projected $27 billion in 1990-91) largely by raising tax revenues, which went up by one-third from $87 billion in 1984-85 to $115 billion in 1990-91.

While personal income taxes still account for the lion's share of the federal tax take - 45.6 percent in 1990-91 - the evidence shows that the federal government has already begun to rely more heavily on consumption taxes, even before the planned Goods and Services Tax comes into effect in 1991. Federal sales and excise taxes increased their share from 19.9 percent of total federal revenues in 1984-85 to a projected 25.3 percent in 1990-91. Federal consumption taxes have far outstripped other taxes in terms of their relative growth in recent years: revenues from federal sales and excise taxes increased by 68 percent in real terms between 1984-85 and 1990-91, followed by 46 percent for personal income tax, 27 percent for unemployment insurance premiums and 21 percent for corporate income tax.

The Goods and Services Tax and the Poor

The proposed Goods and Services Tax (GST) will increase the federal consumption tax burden on Canadians at all income levels. Since consumption taxes like the GST are regressive - they weigh heaviest in percentage terms on the poor and lightest on the affluent - the federal government proposes to expand the refundable sales tax credit in order to protect low-income consumers from the added burden that the GST otherwise would impose. It also intends to reduce the middle income tax rate from 26 percent to 25 percent to provide income tax savings in order to offset part of the GST burden on middle-income and upper-income consumers. In addition, purchasers of new homes will be eligible for a tax rebate to offset the impact of the GST on house prices. The Minister of Finance contends that these changes will ensure that households with incomes under $30,000 will be better off after the GST is brought in, and that Canada will have a fairer tax system as a result.

enhanced sales tax credits

The GST credit will build on the existing refundable sales tax credit. It will pay $275 per adult (up from $140 in 1990) and $100 per child (up from $70 in 1990). The threshold - i.e., the income ceiling for the maximum credit - will be set at the level of the threshold for the refundable child tax credit, projected to be $24,800 in 1991. This is substantially higher than the threshold for the old refundable sales tax credit, which will be $18,000 in 1990. The new credit will be paid quarterly, whereas the existing credit is paid only once a year.

The GST credit will add two new benefits to the existing sales tax credit. Single parents and single adults will be compensated for the fact that they face higher costs relative to couples with the same incomes.

Single parents will be able to claim the adult rate for one of their children (i.e., $275 instead of $100). Some single persons (single parents included) will be able to claim an additional credit of up to $140: This 'single person's supplement', as we call it, will be two percent of net income above $6,175, reaching the maximum $140 for net incomes between $13,175 and $24,800; the supplement will be reduced above this point along with the regular credit. The Technical Paper says that this rather complex formula is intended to ensure that the single person's supplement is targetted to "lower-income working or retired singles who maintain their own households and are not dependant on parents or other supporting persons".

Like the refundable sales tax credit, the refundable GST credit will be reduced by five cents for every dollar of income above the $24,800 threshold. For instance, couples with two children will receive the maximum credit - $750 ($275 for each spouse and $100 for each child) - if their net family income is under $24,800 in 1991. If their family income is $30,000, their GST credits will total $490 ($750 less $260, the latter being five percent of the difference between $30,000 and $24,800). Once their net family income exceeds $39,800, couples with two children will no longer be eligible for the GST credit.

The picture is a little more complicated for single adults (including single parents), since they may receive the supplement to their regular GST credit. For example, single Canadians with

incomes of $6,175 or less will get $275, which is the maximum adult rate. If their income is $10,000, they will get the maximum adult rate ($275) plus a single person's supplement worth $77 (calculated as two percent of the difference between $10,000 and $6,175), for a total of $352 worth of credits. Single adults with incomes between $13,175 and $24,800 will receive GST credits totalling $415. Those with net income of $30,000 will get $155. Once their income exceeds $33,100, they will get nothing from the GST credit.

gauging the impact of the GST on the poor

In assessing the proposed GST credit, we use the following criteria: How much of the GST burden will it remove from the poor? Will it reach all low-income Canadians? Will it maintain its protection over time?

The analysis that follows is based largely upon unpublished data kindly provided to the National Council of Welfare by the Department of Finance Canada. Naturally the finance department is not responsible for our interpretation or manipulation of their data or the conclusions we draw from our analysis. Some of our analysis (to be indicated) is based upon work done using Statistics Canada's Social Policy Simulation Database and Model; the assumptions and calculations underlying the simulation results were prepared by Tristat Resources and the responsibility for the use and interpretation of these data are entirely the responsibility of the National Council of Welfare.

In order to assess the adequacy of the Goods and Services tax credit, we must first compare the consumption tax with and without tax credits under the current and proposed systems. The following examples draw upon our analysis of five typical households - single wage-earners under age 65, single elderly persons, two-earner couples with two children, one-earner couples with two children and single parents with two children. Tables 2 through 6 at the end of our brief present the data in full, looking at gross and net sales and income taxes for different income levels within each household type.

without sales tax credits, the GST would hurt the poor the most

The Goods and Services Tax alone - i.e., without the refundable tax credit - would place a much heavier consumption tax burden on lower-income Canadians than they would bear under the current system without credits. For example, a single wage-earner under age 65 living on $12,500 in 1991 - $2,432 below the projected 1991 poverty line of $14,932 for a single person living in city of 500,000 or more - would pay $535 under the old federal manufacturer's sales tax (FST) and an estimated $810 - $275 or 51 percent more - under the Goods and Services Tax (GST). Measured as a percentage of income, the sales tax burden would swell from 4.3 percent under the FST to 6.5 percent under the GST. If the worker's income were $15,000, his or her gross (i.e., pre-sales tax credit) would rise from $615 under the old FST to $945 under the new GST, for a $330 or 35 percent increase; the sales tax burden would escalate from 4.1 percent to 6.3 percent of income.

The conventional wisdom that consumption taxes (unsheltered by tax credits) are regressive is clearly born out by the data. The average tax rate (i.e., taxes as a percentage of income) for single wage-earners under the FST in 1991 would range from 4.3 percent for a worker with income of $12,500 to 4.1 percent at income of $15,000, 3.9 percent at $20,000, 3.5 percent at $30,000, 3.4 percent at $40,000, 3.2 percent at $50,000, 2.9 percent at $60,000 and 2.7 percent at $100,000. The regressive pattern is the same for the GST, except that all the percentages are higher since the GST will be larger than the FST - 6.5 percent for workers with income of $12,500, 6.3 percent at $15,000, 6.1 percent at $20,000, 5.5 percent at $30,000, 5.3 percent at $40,000, 5.0 percent at $50,000, 4.8 percent at $60,000 and 4.7 percent at $100,000.

sales tax credits will increase, but so will the sales tax

Fortunately, the federal government has recognized the built-in unfairness of sales taxes and the resulting need for a more generous sales tax credit to protect lower-income consumers from the bigger bite of the planned Goods and Services Tax. Returning to our case of a low-wage single worker, the old FST offers a tax credit that, in 1991, would have amounted to a maximum of $140 for one adult, thereby reducing the $12,500 worker's federal sales tax from $535 (4.3 percent of income) to $395 (3.2 percent of income). Another way of gauging the sales tax credit is to observe that, under the FST, it would reduce this employee's sales tax burden by 26.2 percent (i.e., from $535 to $395). Under the GST, the worker will receive a much larger sales tax credit -$402 - which will cut his or her sales tax burden in half (from $810 to $408, or 49.6 percent). On the other

hand, the net (after-credit) GST is fractionally larger than the net FST - $408 as opposed to $395 - since the enriched credit does not entirely make up for the larger sales tax.

Tables 2a though 6a give a detailed breakdown of the sales tax and associated credit for various types of households according to income levels. In all cases, the planned GST imposes a heavier pre-tax credit burden on everyone - rich, poor and in between - than does the current FST. The enhanced GST credit packs a lot more punch than the old FST credit when measured in terms of how much it reduces the tax load on the poor. However, low-income Canadians will end up paying pretty much the same after-credit sales tax under the Goods and Services Tax, even with the boost in the sales tax credit. (Some will pay a bit more, other a bit less, as Tables 2a through 6a attest, the happy exception being lower-income one-parent families which will see their sales tax burden reduced a good deal by the larger credit when it is introduced, though as we shall see later the value of the credit will diminish over time).

In Table 5a, for instance, a two-earner couple supporting two children on an income of $20,000 in 1991 - $9,600 below the projected $29,600 low-income line for a family of four living in a city of 500,000 or more - would have its federal sales tax burden reduced by 41 percent under the old FST (from $960 to $565) and by 56 percent under the planned GST (from $1,330 to $580). Although the GST credit will offset more of the sales tax burden, in absolute terms this low-income family still will pay $15 more under the GST than the old FST. The Minister of Finance argues that indexation of the income tax system and federal transfers such as child benefits and old age pensions in response to the GST's anticipated 2.4 percentage point addition to the

inflation rate will in effect 'save' this family $95 and so put it $80 'ahead' after factoring in the sales tax and tax/transfer changes. Even if we accept this argument (and we remain sceptical), this low-income family will end up about where it would be without the GST ($80 makes little difference). In any case, as we demonstrate below, over time rising income and sales taxes and shrinking child benefits will erode the disposable income even of low-income families.

A working poor one-earner couple with two children living on $20,000 in 1991 (as in Table 4a) would see its sales tax burden reduced by 31 percent under the old FST (from $1,035 to $715, thanks to its $320 worth of refundable sales tax credits) and by 52 percent under the GST (its $750 in credits will cut its sales tax from $1,445 to $695); this particular family's after-credit federal sales tax burden will be marginally smaller ($20) under the new system, though the difference is not enough to sneeze at. A single pensioner with an income of $12,500 in 1991 (see Table 3a) would receive a sales tax credit of $140 under the FST, lowering his or her sales tax from $505 to $365 - a 28 percent decrease; the GST credit will come to $402, reducing sales tax by 52 percent from $780 to $378.

Single-parent families will fare best from sales tax reform. As shown in Table 6a, the combination of the single person's supplement and the adult-equivalent credit for one child guarantees a one-parent family with two children up to $790 in refundable sales tax credits under the GST. A single mother (eight in ten one-parent families are headed by women) raising two children on an income of $12,500 in 1991 - $13,200 under the projected $25,700 low-income line - would be eligible for $280 in refundable sales tax credits under the old system, lowering

federal sales tax from $540 to $260 or by 52 percent. Under the new system proposed by the Minister of Finance, she and her two children will get $767 in sales tax credits, enough to cut their GST burden by a very substantial 94 percent from $815 to just $48. The enhanced sales tax credit will reduce the GST burden by 84 percent for a single parent with two children and income of $15,000 in 1991, 64 percent for income of $20,000, 52 percent for income of $25,000, 39 percent for income of $30,000, 21 percent for income of $35,000 and 10 percent for income of $40,000. Since single-parent families are concentrated at the lower end of the income spectrum, most will enjoy a welcome measure of relief from the Goods and Services Tax and will pay considerably less sales tax than they do now - at first, that is.

families with children will not get the maximum sales tax credit

The new sales tax credit will pay maximum benefits for families and incomes with net incomes up to $24,800, above which benefits will be reduced by five percent. This design guarantees that all low-income Canadians who apply will receive the sales tax credit, although not all will qualify for the maximum benefit.

Table 7 compares the income threshold for the sales tax credit (i.e., the income level below which maximum credits are payable) with the projected low-income line for different sizes and types of household. The table also shows the 'disappearing point' - i.e., the income level above which the sales tax credit is not payable.

A single adult will receive a sales tax credit of up to $415 if his or her net income is under $24,800, which is $9,900 above the projected low-income line of $14,900 in 1991; benefits will disappear once income exceeds $33,100, which is $18,200 above the projected average income for one person in 1991. As a result, all low-income single Canadians would qualify for the maximum sales tax credit were it not for the fact that, as explained below, the very poorest will not get the single person's supplement.

A childless couple's maximum sales tax credit will amount to $550. Since the projected low-income line for this family is $20,200 in 1991 and the threshold for the sales tax credit is $24,800, then childless couples with incomes as much as $4,600 above the low-income line for a city of 500,000 or more will receive maximum credits. Credits will disappear once net family income exceeds $35,800.

A single parent with one child will receive a maximum sales tax credit of $690 if her income is under $24,800, which is $4,600 above the projected 1991 low-income line for a family of two living in a metropolitan centre. This means that all one-parent families with one child and income below the poverty line will get the maximum sales tax credit.

A single parent with two children will get up to $790 in sales tax credits so long as income is under $24,800, with partial credits payable up to an income of $40,600 in 1991. The projected poverty line for a family of three living in a large city in 1991 is $25,700, which is above the threshold for maximum benefits. As a result, one-parent families near the poverty line will receive less than the maximum sales tax credit. At the other end of the poverty spectrum, some very poor single parents will

get little or nothing from the single person's supplement so that, oddly enough, less-poor one-parent families will receive a larger sales tax credit than the very poor.

The projected low-income line for a family of four living in a city the size of Vancouver, Toronto or Montreal in 1991 is $29,600. Lest the reader think this level 'too high', consider that the projected average income for a family of four in 1991 is $60,000 - more than double the poverty line. As a result, maximum benefits from the refundable sales tax credit will end some $4,800 below the poverty line for a couple with two children.

Because the sales tax credit threshold - like the refundable child tax credit on which it is patterned - is not adjusted for family size, larger families are disadvantaged relative to families with fewer children. A couple with two children will receive up to $750 in sales tax credits under the new scheme and the threshold for maximum benefits ($24,800) will be $4,800 below the low-income line (projected at $29,600). A couple with three children will qualify for an extra $100 for its additional child, bringing its total credit to $850; however, the poverty line (which is adjusted for family size) for a family of five living in a city of 500,000 or more will be about $32,300 in 1991, which is $7,500 above the threshold for the maximum sales tax credit. The larger the family, the larger the gap between the poverty line and the threshold, which means that fewer large families will qualify for the maximum sales tax credit even though they are no better off than smaller low-income families. The low-income line for a couple with four children will be about $35,100 in 1991 for a metropolitan centre - more than $10,000 above the threshold for the maximum sales tax credit.

These results are illustrated in Figures AA and AB at the very end of the brief. Figure AA gives the threshold for the maximum sales tax credit and the projected 1991 low-income line (for a city of 500,000 or more) for different types and sizes of household. Figure AB shows the dollar gap between the sales tax credit threshold and the poverty line.

The results summarized in Table 7 and Figures AA and AB show that the threshold for maximum sales tax credits will be **above** the poverty line for single persons, childless couples and single parents with one child. Conversely, the sales tax credit threshold will be **below** the poverty line for single parents with two or more children and all couples with children. Clearly, larger working poor families will fare less well under the GST: the larger the family, the deeper the sales tax credit threshold will fall below the poverty line.

very poor single Canadians will get smaller sales tax credits than some non-poor single persons

The single person's supplement is an unexpected wrinkle in the new sales tax credit. On the one hand, the additional credit (up to $140) will be a welcome supplement to the basic adult rate of $275, thereby offering much better protection from the GST for some low-income single men and women. However, the single person's supplement will begin to phase in only when income exceeds $6,175 (at a rate of 2 percent of net income above $6,175), reaching its maximum value of $140 when net income reaches $13,175. Those with net incomes up to $24,800 will receive the $140 maximum supplement, which will be reduced by five percent of net income above $24,800 (like the regular

credit). The Technical Paper justifies this rather complex formula "to ensure that this benefit is targeted at lower-income working or retired singles who maintain their own households and are not dependant on parents or other supporting persons".

Although the Technical Paper does not elaborate on this feature, presumably one reason for the $6,175 phase-in threshold is to exclude students from the supplement and so keep costs down. Whatever the merit of this argument - yes, some students receive support from middle and upper-income parents, but a lot of students from lower-income families in particular do not - a perhaps unintended consequence will be to deny the supplement (or certainly the full $140) to many single persons on social assistance, including persons with disabilities.

At present (1989) social assistance rates for single recipients - especially those deemed to be 'employable' - are below or not far above the $6,175 phase-in mark for the single person's supplement. Currently the maximum welfare benefits for single persons are $5,892 in Newfoundland, $6,888 in P.E.I., $5,880 for municipal welfare in Halifax, $5,484 in New Brunswick, $6,240 in Quebec for singles enrolled in employment programs (a mere $5,040 for those who are not), $5,892 for employable singles on Ontario's short-term welfare program, $5,268 for singles on municipal welfare in Winnipeg, $4,455 for employable singles in Saskatchewan, $4,407 for single persons on short-term assistance in Alberta and $5,160 for employable singles in B.C. Since welfare rates are not indexed, there is no reason to believe that they will be substantially larger in 1991 than they are in 1989; indeed, some provinces have frozen or cut back on their benefits for single recipients. Welfare rates are so low in some provinces - such as New Brunswick - that some single-parent families on

social assistance also could get little benefit from the single person's tax credit supplement.

Will the GST burden on very poor single Canadians be so much less than the GST on the less-poor that the former do not require the supplement to the sales tax credit? Why should a single person with an income up to $24,800 - $9,900 above the projected 1991 poverty line - receive the full $140 supplement while someone with an income well under half the poverty line get no supplement? And why should low-income singles under the age of 65 be treated less well than single pensioners, whose benefits from Old Age Security and the Guaranteed Income Supplement ensure they will receive a partial (around $65) single person's supplement?

takeup of the sales tax credit

In order to get the sales tax credit, Canadians will have to apply for it by filling in a schedule on the income tax form. Some low-income families and individuals may miss out on the sales tax credit because for one reason or another they do not fill out income tax forms; for instance, their incomes are below the taxpaying threshold or they are functionally illiterate or they are homeless people without an address. Past experience with the refundable child tax credit shows that the takeup of refundable credits can become good quickly so long as government - in conjunction with community groups and agencies who work with Canadians outside the income tax system - publicizes and explains the credit and provides assistance in filling out the required forms.

the sales tax credit and the welfare system

Social assistance recipients could lose out on the enhanced sales tax credit if provincial welfare departments counted the money as income in determining welfare benefits. At present all provinces exempt the current sales tax credit - although some municipalities in Manitoba have engaged in this unfair practice in the past - so we trust they will do the same for the larger GST credit. However, provinces do take into account the existence of child benefits and sales tax credits in setting their welfare rates; they could in effect penalize welfare recipients by not adjusting welfare rates as much as they might in the absence of the enhanced sales tax credit. The only way around this potential problem is to have indexed welfare benefits; at present only Quebec indexes rates for some categories of recipients.

the fatal flaw: the sales tax credit is not fully indexed

The sales tax credit is afflicted with the same blight that has infected the income tax system and federal child benefits since 1985 - partial de-indexation. Both the sales tax credit and its $24,800 threshold for maximum benefits will be indexed only by the amount of inflation over three percent a year; the same holds for the $6,175 phase-in level for the single person's sales tax credit supplement. For example, if inflation runs four percent (as it has been in recent years), then the credit and the threshold will be increased by only one percent (four percent less three percent). This unfortunate feature of the proposed sales tax credit - which the government has introduced in order to save money by reducing both the future value of the credit and

the number of Canadians receiving it - forces us to take a much more gloomy view of the Goods and Services Tax.

Figure A illustrates how inflation will erode the value of the credit as time passes. In 1991, the maximum credit for a couple with two children will come to $750. Just five years later, in 1996, the credit will be worth only $644 and will have lost 14 percent of its value. Within ten years, it will be worth only $553 or fully 26 percent less than when it was introduced. Even if the federal government adjusts the credit from time to time to make up for its loss of purchasing power, such adjustments are not likely to come frequently enough or to be large enough to maintain the value of the sales tax credit.

Figure B charts the declining threshold for the credit as well as the 'disappearing point' (or income level when the credit is reduced to zero). For a couple with two children, the threshold for maximum credits will fall from $24,800 to $21,297 in 1996 and $18,288 by 2001 if it is only partially indexed each year. The income level above which the credit disappears will decline from $39,800 for a couple with two children in 1991 to $34,178 in 1996 and $29,349 in 2001.

Suppose that our couple with two children has an income of $24,000 - just below the $24,800 threshold, which means that the family qualifies for the maximum sales tax credit of $750. Assume as well that the family's income stays the same over ten years. The family will lose out on two counts - from the loss in the purchasing power of the sales tax credit, and the falling threshold. By 1996, the maximum sales tax credit for a couple with two children will be $644, so even if it still got the full credit, the family would be worse off than it was in 1991.

Moreover, the family will no longer qualify for the maximum credit because its income ($24,800 in constant 1991 dollars) will higher than the threshold for the maximum credit ($21,297 by 1996). Instead, the family will receive only $509 - 79 percent of the maximum sales tax credit payable in 1996. By 2001, its sales tax credits will have shrunk to $267 - little more than one-third of what the family got in 1991 and only 48 percent of the amount of the maximum credit payable in 2001.

Although we have used the example of a couple with two children, the same thing will happen to single parents, single persons, childless couples and senior citizens. Fewer and fewer Canadians will qualify for the maximum credit with each passing year; more and more will not receive any credit.

The single person's supplement (up to $140 in 1991) also will dwindle in value as a result of inflation. By 1996, it will be worth $120 and, by 2001, just $103 if it is only partially indexed each year and not adjusted otherwise. However, the phase-in point for the single person's sales tax credit supplement ($6,175 in 1991) also will fall due to partial indexation (to $5,303 in 1996 and $4,554 in 2001), which means that it will serve single women and men lower down the poverty ladder as time goes by. The income level where the maximum supplement becomes payable ($13,175) also will fall, reaching $9,716 within ten years after the introduction of the Goods and Services Tax. Thus the single person's supplement will be increasingly targetted over time, although its value will decline.

We estimate that 6.8 million households will receive a total of close to $3 billion worth of sales tax credits in 1991; four

million will qualify for the maximum amount. By 1996, partial indexation will have shrunk these figures to about 6.1 million households in receipt of $2.3 billion worth of credits; 3.6 million will get the maximum credit. In other words, partial indexation will cut 700,000 households from the sales tax credit rolls by 1996 and will ensure that 400,000 fewer households receive the maximum credit. The federal government will pay out $700 million less in sales tax credits in 1996 as a result of partial indexation.

The shrinking sales tax credit and its falling threshold will weaken its capacity to protect low-income Canadians from the Goods and Services Tax in future. In effect, their federal sales tax burden will grow heavier with each passing year because the sales tax credit will offset less of the Goods and Services Tax. The sales tax credit also will be targetted further and further below the poverty line, thus leaving more and more working poor and modest-income families with little or no protection from the sales tax.

only the poor will face automatic sales tax increases each year

Figures C through V illustrate how de-indexation will eat away at the sales tax credit and consequently raise the burden of the Goods and Services Tax on low-income Canadians. We look at five types of low-income households - single wage-earners under age 65, single pensioners, one-earner couples with two children, two-earner couples with two children and single parents with two children.

Take the case of a single pensioner (shown in Figures G, H, I, and J) with a 1991 income of $12,500 - more than $2,400 below the projected low-income line for a single person living in a city of 500,000 in 1991. When the Goods and Services Tax is introduced, that pensioner will receive a refundable sales tax credit of $402, thus reducing the burden of the Goods and Services Tax from $780 to $378; the tax credit will remove 52 percent of the sales tax, and the pensioner's net GST will amount to three percent of income. By 1996, inflation will have reduced the value of the partially-indexed sales tax credit to $345, which means that the credit will shelter only 44 percent of the sales tax and the pensioner's net GST will be $435 or 3.5 percent of income. In 2001, the partially indexed sales tax credit will be worth only $296, offsetting only 38 percent of the GST burden and forcing the pensioner to pay net GST of $484 or 3.9 percent of income. This pensioner will face a 15 percent GST increase in just five years and a hike of 28 percent in ten years.

The picture is the same for the other low-income families and individuals illustrated in the graphs. Their sales tax credits will fall in value as the years go by, which in turn will impose a rising sales tax burden on them.

Will Tax Reform Bring A Fairer Tax System?

The Minister of Finance has set fairness as one of the goals of tax reform - indeed, it was placed first among the several objectives listed in the June 1987 White Paper on Tax Reform. The August 1989 Technical Paper on the Goods and Services Tax claims that households with incomes under $30,000 will be better off,

mainly as a result of the enhanced refundable sales tax credit and the reduction in the middle income tax rate.

a rising sales and income tax burden on low-income Canadians

The question is: better off compared to what? Certainly not better off compared to where low and modest-income Canadians were back in 1984, before the Finance Minister brought in his various tax changes. Our analysis using the Social Policy Simulation Database and Model found that single parents with incomes in the $10,000 to $15,000 range paid on average $388 in federal sales tax in 1984; at that time there was no form of sales tax relief available from the federal government. In 1991, even with the sales tax credit, those low-income one-parent families still will end up paying about $553 in net Goods and Services Tax - 42 percent more than 1984. While low-income Canadians were helped by the introduction of the refundable sales tax credit in 1986 and will benefit (initially, that is) from its enhancement under the Goods and Services Tax in 1991, the continual increases in federal sales taxes since 1985 have raised the tax burden on all Canadians, the poor included.

We must not forget that the working poor and modest-income taxpayers also have been hit with hefty income tax hikes over the past five years as a result of the changes reviewed in the first section of this brief. As we noted earlier, a two-earner couple supporting two children on $20,000 in 1989 paid just $175 in federal and provincial income taxes in 1984; the family's income taxes rose to $765 in 1988 and will hit $822 in 1991 - $647 more than in 1984, amounting to an enormous 370 percent real tax increase over seven years.

Not only has the overall tax burden risen considerably for lower-income Canadians, but it will grow heavier after the completion of Ottawa's tax reform package in 1991. Partial indexation has been pushing up federal and provincial income taxes since 1986; it will also bring steady and automatic federal sales tax increases for low-income consumers starting in 1992.

As a result, in 1991 poor families and individuals will be worse off than they were before the various tax changes of the past five years. In 1992, they will be worse off than in 1991 because inflation will begin gnawing away at their sales tax credits.

the GST will hit the middle class hardest

What about Canadians above the poverty line? Our analysis shows that they will pay more under the Goods and Services Tax than they did under the old federal sales tax. Middle-class households will bear the heaviest tax burden, measuring the GST as a percentage of their income. (By "middle class", we mean the broad group of households with incomes ranging from above the low-income line to around average income).

Figure W compares the amounts paid by single wage-earners at different earnings levels before and after the GST. Figure X indicates that the GST will be somewhat less regressive than the old federal sales tax. Before tax reform, the sales tax burden as a percentage of income was heaviest for single persons with incomes of $20,000 to $25,000 and fell above $25,000 to a low of 2.6 percent for those at the $75,000 level. Singles with income

above $50,000 paid less of their income in sales taxes than singles with incomes under $50,000, including the poor. After the GST, the sales tax burden will rise steadily up to $35,000, falling somewhat beyond that mark; those with incomes under $30,000 will bear a lighter load than those over $30,000. However, all singles - the poor included - still will pay a higher percentage of their income to the Goods and Services Tax than they did to the old federal sales tax.

The picture is much the same for couples with children. Figures Y and Z look at two-earner couples with two children. Families with incomes under $30,000 will pay about the same after-credit GST as they would have under the old sales tax, while those above $30,000 will pay more under the GST. Measuring the GST as a percentage of family income, families with incomes between $15,000 and $20,000 will bear a slightly heavier burden under the Goods and Services Tax; those between $20,000 and $30,000 will be a bit better off under the GST than they would under FST, while families with incomes over $30,000 will shoulder a heavier tax burden under the GST. While the Goods and Services tax will be somewhat less regressive than the old manufacturer's sales tax, middle-income couples with incomes of $45,000 will bear the heaviest burden of all the families shown in Figure Z. (The average income for a two-earner couple with two children in 1991 will be about $60,000, so we are talking about moderate-income families who are not poor but still are below the average income level).

Another oddity of the government's tax reform plans worth noting is the intention to lower the middle-income tax rate from 26 to 25 percent in order to offset part of the larger GST burden on middle-income Canadians. This change will have the perverse

effect of reducing income taxes for upper-income taxpayers as well. In fact, the Department of Finance's own figures published in the Technical Paper indicate that the income tax savings for higher-income taxpayers as a result of lowering the middle tax rate will far outweigh the improvement in the sales tax credits for most lower-income Canadians! The higher the taxpayer's income, the larger the tax savings from the middle rate reduction.

A single person under age 65 with an income of $15,000 in 1991 will get $275 more from the enhanced sales tax credit, while a single person with an income of $100,000 will save $468 in income taxes thanks to the cut in the middle tax rate. A one-earner couple with two children and $20,000 in income will receive $430 more in sales tax credits after tax reform, while a couple with $100,000 will pay $468 less in income taxes.

What about the total tax burden? Tables 2b through 7b look at the total taxes (from federal and provincial income taxes and federal sales taxes) for different types of households at various income levels. Even with the one percentage point reduction in the middle income tax rate, it is clear that middle-class Canadians generally will face the largest percentage tax increase in their total income and sales tax bill when the GST is introduced in 1991. For instance, Table 4b indicates that one-earner couples with two children and incomes of $40,000 will face a 5.4 percent hike in their total tax bill after the GST in 1991, compared to 2.7 percent for upper-income couples with $100,000. Among two-earner couples with two children, those with incomes of $45,000 will experience the highest tax hike - 9.2 percent - while those with incomes of $100,000 will see a 3.7 percent increase in their total taxes.

Conclusion

Although it has sparked widespread criticism, the proposed Goods and Services Tax does attempt to ease the burden of increased taxes on the poor by increasing the existing sales tax credit and extending it higher up the income ladder. These improvements in the refundable sales tax credit are welcome. However, they still will not adequately protect low-income Canadians from the added burden of the planned new sales tax.

The enhanced sales tax credit will reduce but not remove the sales tax burden for most poor families and individuals. In fact, low-income Canadians generally will end up paying about the same federal sales tax as they did before tax reform because the tax increase from the Goods and Services Tax matches the improvement in the refundable sales tax credit. The fortunate exception is low-income single-parent families, which will initially pay less sales tax thanks to substantial improvements in their sales tax credits, though their sales tax burden will not be removed entirely. On the other hand, some of the poorest Canadians - single persons on welfare - will receive a smaller sales tax credit than individuals with incomes above the poverty line.

Because the sales tax credit is only partially indexed, low-income Canadians will pay automatic sales tax increases each year after the Goods and Services Tax is introduced in 1991. The GST will impose an ever-growing burden on the poor, including single parent families. The refundable sales tax credit will help fewer and fewer families and individuals as the years go by.

Partial indexation is also imposing a rising income tax burden on the working poor and is pushing the taxpaying threshold

for income tax further and further below the poverty line over time. Even without future increases in the Goods and Services Tax, lower-income Canadians face a growing burden from sales and income taxes. They will be worse off in 1991 than they were in 1984, and worse off in 1992 than in 1991.

Alternatives

The National Council of Welfare favours a more progressive income tax system coupled with a new federal sales tax with a lower rate and a larger sales tax credit that is fully protected against inflation and financed out of income tax revenues. We believe this is a fair and realizable alternative to the federal proposals.

We have dealt with the income tax system at length before. Our April 1989 report, Social Spending and the Next Budget, recommended that the top marginal tax rate be increased from 29 to 32 percent, the capital gains exemption be eliminated, capital gains be fully taxed and the RRSP and RPP tax deductions be converted to non-refundable credits in line with the philosophy of tax reform set forth in the 1987 White Paper and implemented in the 1988 income tax changes.

These proposals, coupled with our recommendation below not to lower the middle income tax rate, would raise in the order of $5.3 billion in income tax revenue (in 1991 dollars). This could finance the estimated $4.4 billion cost of our proposed sales tax credit of $400 per adult and $200 per child and still leave close to $1 billion, which in turn could finance the low-income tax credit that we propose to remove the income tax burden on

Canada's working poor. We estimate that - relieved of the cost of the sales tax credit and of the reduction in the middle income tax rate - the Goods and Services Tax rate could be brought in at around 6.5 percent, instead of the proposed 9 percent rate that has brought so much criticism.

Recommendations

1. The sales tax credit and its threshold for maximum benefits should be fully indexed to the cost of living.

2. The sales tax credit should be increased to $400 per adult and $200 per child.

3. The sales tax credit should be increased (above and beyond regular indexation) if the Goods and Services Tax rate is increased in future; the sales tax credit should not be reduced if the GST rate is reduced.

4. The federal government should extend the single person's tax credit supplement to all low-income single Canadians.

5. The federal government should devise a threshold for the sales tax credit that varies according to family size (e.g., according to Statistics Canada's 1986 base low-income cut-offs).

6. In conjunction with community agencies and the voluntary sector, the federal government should publicize the sales tax credit and provide assistance to applicants who require help in applying for the credit.

7. The federal and provincial governments should work together to ensure that welfare recipients receive the full sales tax credits to which they are entitled; the provinces should index their social assistance rates.

8. The federal government should finance the sales tax credit not with revenues from the GST itself, but out of the larger revenues that would result from a more progressive income tax system; this approach would permit a lower GST rate that is less disruptive to the economy and which imposes a lower sales tax burden on Canadians.

9. The federal government should not proceed with its plan to reduce the middle income tax rate.

10. The federal government should introduce a fully-indexed low-income tax credit to remove the income tax burden from poor taxpayers.

11. The Minister of Finance should publish a comprehensive tax account with each federal budget, providing information on the cost and distributional impact of all tax expenditures and the amount of income and sales taxes paid by representative types of households at different income levels.

TABLE 1

TOTAL (FEDERAL AND PROVINCIAL) INCOME TAXES, TWO-EARNER COUPLES WITH TWO CHILDREN, CONSTANT (1989) DOLLARS, 1984-1991

	Working Poor	Middle Income	Upper Income
1984	$175	$7,903	$34,775
1987	839	9,224	36,618
1988	765	8,375	34,516
1991	822	9,099	34,076
Percentage Change			
1984-91	369.7%	17.4%	-6.4%

Note: Taxes are not of refundable child tax credit.
One child is under age 7, one child over 7,
Working poor family earns $20,000; middle-income family $49,000; upper-income family, $123,000.

TABLE 2a

FEDERAL SALES TAX, BEFORE AND AFTER SALES TAX REFORM, SINGLE WAGE-EARNER UNDER 65, BY INCOME, 1991

BEFORE

Income	Gross FST	FST Credit	Credit as % of FST	Net FST	Net FST as % of Income
12,500	535	140	26.2%	395	3.2%
15,000	615	140	22.8	475	3.2
20,000	785	40	5.1	745	3.7
25,000	930	0	0.0	930	3.7
30,000	1,055	0	0.0	1,055	3.5
35,000	1,215	0	0.0	1,215	3.5
40,000	1,360	0	0.0	1,360	3.4
45,000	1,430	0	0.0	1,430	3.2
50,000	1,595	0	0.0	1,595	3.2
60,000	1,760	0	0.0	1,760	2.9
75,000	1,980	0	0.0	1,980	2.6
100,000	2,700	0	0.0	2,700	2.7

AFTER

Income	Gross GST	GST Credit	Credit as % of GST	Net GST	Net GST as % of Income
12,500	810	402	49.6%	408	3.3%
15,000	945	415	43.9	530	3.5
20,000	1,220	415	34.0	805	4.0
25,000	1,455	405	27.8	1,050	4.2
30,000	1,660	155	9.3	1,505	5.0
35,000	1,900	0	0.0	1,900	5.4
40,000	2,110	0	0.0	2,110	5.3
45,000	2,260	0	0.0	2,260	5.0
50,000	2,510	0	0.0	2,510	5.0
60,000	2,860	0	0.0	2,860	4.8
75,000	3,415	0	0.0	3,415	4.6
100,000	4,650	0	0.0	4,650	4.7

DIFFERENCE

Income	Gross Sales Tax	Sales Tax Credit	Net Sales Tax	Percentage Change
12,500	275	262	13	3.3%
15,000	330	275	35	11.6
20,000	435	375	60	8.1
25,000	525	405	120	12.9
30,000	605	155	450	42.7
35,000	685	0	685	56.4
40,000	750	0	750	55.1
45,000	830	0	830	58.0
50,000	915	0	915	57.4
60,000	1,100	0	1,100	62.5
75,000	1,435	0	1,435	72.5
100,000	1,950	0	1,950	72.2

TABLE 2b

INCOME TAXES AND TOTAL TAXES, BEFORE AND AFTER SALES TAX REFORM, SINGLE WAGE-EARNER UNDER 65, BY INCOME, 1991

BEFORE

Income	Income Taxes	As % of Income	Total Taxes*	As % of Income
12,500	1,560	12.5%	1,955	15.6%
15,000	2,209	14.7	2,684	17.9
20,000	3,507	17.5	4,252	21.3
25,000	4,806	19.2	5,736	22.9
30,000	6,292	21.0	7,347	24.5
35,000	8,342	23.8	9,557	27.3
40,000	10,421	26.1	11,781	29.5
45,000	12,501	27.8	13,921	31.0
50,000	14,581	29.2	16,176	32.4
60,000	18,866	31.4	20,626	34.4
75,000	25,860	34.5	27,840	37.1
100,000	37,678	37.7	40,378	40.4

AFTER

Income	Income Taxes	As % of Income	Total Taxes	As % of Income
12,500	1,560	12.5%	1,968	15.7%
15,000	2,209	14.7	2,739	18.3
20,000	3,507	17.5	4,312	21.6
25,000	4,806	19.2	5,856	23.4
30,000	6,271	20.9	7,776	25.9
35,000	8,241	23.5	10,141	29.0
40,000	10,240	25.6	12,350	30.9
45,000	12,240	27.2	14,500	32.2
50,000	14,240	28.5	16,750	33.5
60,000	18,407	30.7	21,267	35.4
75,000	25,392	33.9	28,807	38.4
100,000	37,210	37.2	41,860	41.9

DIFFERENCE

Income	Income Taxes	Percentage Change	Total Taxes	Percentage Change
12,500	0	0.0%	13	0.7%
15,000	0	0.0	55	2.0
20,000	0	0.0	60	1.4
25,000	0	0.0	120	2.1
30,000	-21	-0.3	429	5.8
35,000	-101	-1.2	584	6.1
40,000	-181	-1.7	569	4.8
45,000	-261	-2.1	569	4.1
50,000	-341	-2.3	574	3.5
60,000	-459	-2.4	641	3.1
75,000	-468	-1.8	967	3.5
100,000	-468	-1.2	1,482	3.7

* Note: Total taxes are federal and provincial income taxes and net federal sales tax.

TABLE 3a

FEDERAL SALES TAX' BEFORE AND AFTER SALES TAX REFORM
SINGLE PERSON 65 OR OLDER, BY INCOME, 1991

BEFORE

Income	Gross FST	FST Credit	Credit as % of FST	Net FST	Net FST as % of Income
12,500	505	140	27.7%	365	2.9%
15,000	600	140	23.3	460	3.1
20,000	740	40	5.4	700	3.5
25,000	840	0	0.0	840	3.4
30,000	945	0	0.0	945	3.2
35,000	1,110	0	0.0	1,110	3.2
40,000	1,225	0	0.0	1,225	3.1
45,000	1,430	0	0.0	1,430	3.2
50,000	1,570	0	0.0	1,570	3.1
60,000	1,595	0	0.0	1,595	2.7
75,000	1,715	0	0.0	1,715	2.3
100,000	2,855	0	0.0	2,855	2.9

AFTER

Income	Gross GST	GST Credit	Credit as % of GST	Net GST	Net GST as % of Income
12,500	780	402	51.5%	378	3.0%
15,000	910	415	45.6	495	3.3
20,000	1,125	415	36.9	710	3.5
25,000	1,310	405	30.9	905	3.6
30,000	1,460	155	10.6	1,305	4.4
35,000	1,660	0	0.0	1,660	4.7
40,000	1,930	0	0.0	1,930	4.8
45,000	2,240	0	0.0	2,240	5.0
50,000	2,470	0	0.0	2,470	4.9
60,000	2,580	0	0.0	2,580	4.3
75,000	2,735	0	0.0	2,735	3.6
100,000	4,490	0	0.0	4,490	4.5

DIFFERENCE

Income	Gross Sales Tax	Sales Tax Credit	Net Sales Tax	Percentage Change
12,500	275	262	13	3.6%
15,000	310	275	35	7.6
20,000	385	375	10	1.4
25,000	470	405	65	7.7
30,000	515	155	360	38.1
35,000	550	0	550	49.5
40,000	705	0	705	57.6
45,000	810	0	810	56.6
50,000	900	0	900	57.3
60,000	985	0	985	61.8
75,000	1,020	0	1,020	59.5
100,000	1,635	0	1,635	57.3

TABLE 3b

INCOME TAXES AND TOTAL TAXES, BEFORE AND AFTER SALES TAX REFORM, SINGLE PERSON 65 OR OLDER, BY INCOME, 1991

BEFORE

Income	Income Taxes	As % of Income	Total Taxes*	As % of Income
12,500	48	0.4%	413	3.3%
15,000	1,186	7.9	1,646	11.0
20,000	2,546	12.7	3,246	16.2
25,000	3,906	15.6	4,746	19.0
30,000	5,454	18.2	6,399	21.3
35,000	7,534	21.5	8,644	24.7
40,000	9,614	24.0	10,839	27.1
45,000	11,694	26.0	13,124	29.2
50,000	13,774	27.5	15,344	30.7
60,000	18,733	31.2	20,328	33.9
75,000	26,899	35.9	28,614	38.2
100,000	39,073	39.1	41,928	41.9

AFTER

Income	Income Taxes	As % of Income	Total Taxes	As % of Income
12,500	48	0.4%	426	3.4%
15,000	1,186	7.9	1,681	11.2
20,000	2,546	12.7	3,256	16.3
25,000	3,906	15.6	4,811	19.2
30,000	5,433	18.1	6,738	22.5
35,000	7,433	21.2	9,093	26.0
40,000	9,433	23.6	11,363	28.4
45,000	11,433	25.4	13,673	30.4
50,000	13,433	26.9	15,903	31.8
60,000	18,273	30.5	20,854	34.8
75,000	26,440	35.3	29,175	38.9
100,000	38,605	38.6	43,095	43.1

DIFFERENCE

Income	Income Taxes	Percentage Change	Total Taxes	Percentage Change
12,500	0	0.0%	13	3.1%
15,000	0	0.0	35	2.1
20,000	0	0.0	10	0.3
25,000	0	0.0	65	1.4
30,000	-21	-0.4	339	5.3
35,000	-101	-1.3	449	5.2
40,000	-181	-1.9	524	4.8
45,000	-261	-2.2	549	4.2
50,000	-341	-2.5	559	3.6
60,000	-459	-2.5	526	2.6
75,000	-459	-1.7	561	2.0
100,000	-468	-1.2	1,167	2.8

* Note: Total taxes are federal and provincial income taxes and net federal sales tax.

TABLE 4a

FEDERAL SALES TAX, BEFORE AND AFTER SALES TAX REFORM, ONE-EARNER COUPLE WITH TWO CHILDREN, BY INCOME, 1991

BEFORE

Income	Gross FST	FST Credit	Credit as % of FST	Net FST	Net FST as % of Income
15,000	855	420	49.1%	435	2.9%
20,000	1,035	320	30.9	715	3.6
25,000	1,165	70	6.0	1,095	4.4
30,000	1,345	0	0.0	1,345	4.5
35,000	1,455	0	0.0	1,455	4.2
40,000	1,620	0	0.0	1,620	4.1
45,000	1,725	0	0.0	1,725	3.8
50,000	1,855	0	0.0	1,855	3.7
60,000	2,140	0	0.0	2,140	3.6
75,000	2,400	0	0.0	2,400	3.2
100,000	3,315	0	0.0	3,315	3.3

AFTER

Income	Gross GST	GST Credit	Credit as % of GST	Net GST	Net GST as % of Income
15,000	1,210	750	62.0%	460	3.1%
20,000	1,445	750	51.9	695	3.5
25,000	1,625	740	45.5	885	3.5
30,000	1,895	490	25.9	1,405	4.7
35,000	2,055	240	11.7	1,815	5.2
40,000	2,320	0	0.0	2,320	5.8
45,000	2,475	0	0.0	2,475	5.5
50,000	2,650	0	0.0	2,650	5.3
60,000	3,115	0	0.0	3,115	5.2
75,000	3,625	0	0.0	3,625	4.8
100,000	4,875	0	0.0	4,875	4.9

DIFFERENCE

Income	Gross Sales Tax	Sales Tax Credit	Net Sales Tax	Percentage Change
15,000	355	330	25	5.7%
20,000	410	430	-20	-2.8
25,000	460	670	-210	-19.2
30,000	550	490	60	4.5
35,000	600	240	360	24.7
40,000	700	0	700	43.2
45,000	750	0	750	43.5
50,000	795	0	795	42.9
60,000	975	0	975	45.6
75,000	1,225	0	1,225	51.0
100,000	1,560	0	1,560	47.1

TABLE 4b

INCOME TAXES AND TOTAL TAXES, BEFORE AND AFTER SALES TAX REFORM, ONE-EARNER COUPLE WITH TWO CHILDREN, BY INCOME, 1991

BEFORE

Income	Income Taxes	As % of Income	Total Taxes*	As % of Income
15,000	-987	%	-552	%
20,000	311	1.6	1,026	5.1
25,000	1,609	6.4	2,704	10.8
30,000	3,338	11.1	4,683	15.6
35,000	5,633	16.1	7,088	20.3
40,000	7,958	19.9	9,578	23.9
45,000	10,288	22.9	12,013	26.7
50,000	12,618	25.2	14,473	28.9
60,000	17,661	29.4	19,801	33.0
75,000	24,621	32.8	27,021	36.0
100,000	36,435	36.4	39,750	39.8

AFTER

Income	Income Taxes	As % of Income	Total Taxes	As % of Income
15,000	-987	%	-527	%
20,000	311	1.6	1,006	5.0
25,000	1,609	6.4	2,494	10.0
30,000	3,317	11.1	4,722	15.7
35,000	5,532	15.8	7,347	21.0
40,000	7,777	19.4	10,097	25.2
45,000	10,027	22.3	12,502	27.8
50,000	12,277	24.6	14,927	29.9
60,000	17,202	28.7	20,317	33.9
75,000	24,162	32.2	27,787	37.0
100,000	35,967	36.0	40,842	40.8

DIFFERENCE

Income	Income Taxes	Percentage Change	Total Taxes	Percentage Change
15,000	0	0.0%	25	4.5%
20,000	0	0.0	-20	-1.9
25,000	0	0.0	-210	-7.8
30,000	-21	-0.6	39	0.8
35,000	-101	-1.8	259	3.7
40,000	-181	-2.3	519	5.4
45,000	-261	-2.5	489	4.1
50,000	-341	-2.7	454	3.1
60,000	-459	-2.6	516	2.6
75,000	-459	-1.9	766	2.8
100,000	-468	-1.3	1,092	2.7

* Note: Total taxes are federal and provincial income taxes and net federal sales tax.

TABLE 5a

FEDERAL SALES TAX, BEFORE AND AFTER SALES TAX REFORM, TWO-EARNER COUPLE WITH TWO CHILDREN, BY INCOME, 1991

BEFORE

Income	Gross FST	FST Credit	Credit as % of FST	Net FST	Net FST as % of Income
15,000	860	420	48.8%	440	2.9%
20,000	960	395	41.1	565	2.8
25,000	1,185	170	14.3	1,015	4.1
30,000	1,370	0	0.0	1,370	4.6
35,000	1,455	0	0.0	1,455	4.2
40,000	1,575	0	0.0	1,575	3.9
45,000	1,765	0	0.0	1,765	3.9
50,000	1,855	0	0.0	1,855	3.7
60,000	2,160	0	0.0	2,160	3.6
75,000	2,440	0	0.0	2,440	3.3
100,000	3,325	0	0,0	3,325	3.3

AFTER

Income	Gross GST	GST Credit	Credit as % of GST	Net GST	Net GST as % of Income
15,000	1,200	750	62.5%	450	3.0%
20,000	1,330	750	56.4	580	2.9
25,000	1,670	750	44.9	920	3.7
30,000	1,995	640	32.1	1,355	4.5
35,000	2,090	390	18.7	1,700	4.9
40,000	2,240	190	8.5	2,050	5.1
45,000	2,535	0	0.0	2,535	5.6
50,000	2,715	0	0.0	2,715	5.4
60,000	3,215	0	0.0	3,215	5.4
75,000	3,730	0	0.0	3,730	5.0
100,000	5,040	0	0.0	5,040	5.0

DIFFERENCE

Income	Gross Sales Tax	Sales Tax Credit	Net Sales Tax	Percentage Change
15,000	340	330	10	2.3%
20,000	370	355	15	2.7
25,000	485	580	-95	-9.4
30,000	625	640	-15	-1.1
35,000	635	390	245	16.8
40,000	665	190	475	30.2
45,000	770	0	770	43.6
50,000	860	0	860	46.4
60,000	1,055	0	1,055	48.8
75,000	1,290	0	1,290	52.9
100,000	1,715	0	1,715	51.6

TABLE 5b

INCOME TAXES AND TOTAL TAXES, BEFORE AND AFTER SALES TAX REFORM, TWO-EARNER COUPLE WITH TWO CHILDREN, BY INCOME, 1991

BEFORE

Income	Income Taxes	As % of Income	Total Taxes*	As % of Income
15,000	-927	%	-487	%
20,000	53	0.3	618	3.1
25,000	1,200	4.8	2,215	8.9
30,000	2,319	7.7	3,689	12.3
35,000	3,867	11.0	5,322	15.2
40,000	5,093	12.7	6,668	16.7
45,000	6,641	14.8	8,406	18.7
50,000	8,376	16.8	10,231	20.5
60,000	11,995	20.0	14,155	23.6
75,000	17,298	23.1	19,738	26.3
100,000	27,837	27.8	31,162	31.2

AFTER

Income	Income Taxes	As % of Income	Total Taxes	As % of Income
15,000	-927	%	-477	%
20,000	53	0.3	633	3.2
25,000	1,200	4.8	2,120	8.5
30,000	2,319	7.7	3,674	12.2
35,000	3,867	11.0	5,567	15.9
40,000	5,093	12.7	7,143	17.9
45,000	6,641	14.8	9,176	20.4
50,000	8,356	16.7	11,071	22.1
60,000	11,878	19.8	15,093	25.2
75,000	17,037	22.7	20,767	27.7
100,000	27,261	27.3	32,301	32.3

DIFFERENCE

Income	Income Taxes	Percentage Change	Total Taxes	Percentage Change
15,000	0	0.0%	10	2.1%
20,000	0	0.0	15	2.4
25,000	0	0.0	-95	-4.3
30,000	0	0.0	-15	-0.4
35,000	0	0.0	245	4.6
40,000	0	0.0	475	7.1
45,000	0	0.0	770	9.2
50,000	-20	-0.2	840	8.2
60,000	-117	-1.0	938	6.6
75,000	-261	-1.5	1,029	5.2
100,000	-567	-2.1	1,139	3.7

* Note: Total taxes are federal and provincial income taxes and net federal sales tax.

TABLE 6a

FEDERAL SALES TAX, BEFORE AND AFTER SALES TAX REFORM, SINGLE PARENT WITH TWO CHILDREN, BY INCOME, 1991

BEFORE

Income	Gross FST	FST Credit	Credit as % of FST	Net FST	Net FST as % of Income
12,500	540	280	51.9%	260	2.1%
15,000	620	280	45.2	340	2.3
20,000	815	255	31.3	560	2.8
25,000	970	30	3.1	940	3.8
30,000	1,145	0	0.0	1,145	3.8
35,000	1,400	0	0.0	1,400	4.0
40,000	1,565	0	0.0	1,565	3.9
45,000	1,675	0	0.0	1,675	3.7
50,000	1,890	0	0.0	1,890	3.8
60,000	2,170	0	0.0	2,170	3.6
75,000	2,305	0	0.0	2,305	3.1
100,000	2,855	0	0.0	2,855	2.9

AFTER

Income	Gross GST	GST Credit	Credit as % of GST	Net GST	Net GST as % of Income
12,500	815	767	94.1%	48	0.4%
15,000	945	790	83.6	155	1.0
20,000	1,240	790	63.7	450	2.3
25,000	1,510	790	52.3	720	2.9
30,000	1,750	680	38.9	1,070	3.6
35,000	2,055	430	20.9	1,625	4.6
40,000	2,320	230	9.9	2,090	5.2
45,000	2,555	0	0.0	2,555	5.7
50,000	2,890	0	0.0	2,890	5.8
60,000	3,420	0	0.0	3,420	5.7
75,000	3,610	0	0.0	3,610	4.8
100,000	4,230	0	0.0	4,230	4.2

DIFFERENCE

Income	Gross Sales Tax	Sales Tax Credit	Net Sales Tax	Percentage Change
12,500	275	487	-212	-81.5%
15,000	325	510	-185	-54.4
20,000	425	535	-110	-19.6
25,000	540	760	-220	-23.4
30,000	605	680	-75	-6.6
35,000	655	430	225	16.1
40,000	755	230	525	33.5
45,000	880	0	880	52.5
50,000	1,000	0	1,000	52.9
60,000	1,250	0	1,250	57.6
75,000	1,305	0	1,305	56.6
100,000	1,375	0	1,375	48.2

TABLE 6b

INCOME TAXES AND TOTAL TAXES, BEFORE AND AFTER SALES TAX REFORM, SINGLE PARENT WITH TWO CHILDREN, BY INCOME, 1991

BEFORE

Income	Income Taxes	As % of Income	Total Taxes*	As % of Income
12,500	-1,166	%	-906	%
15,000	-748		-408	
20,000	414	2.1	974	4.9
25,000	1,576	6.3	2,516	10.1
30,000	2,695	9.0	3,840	12.8
35,000	4,746	13.6	6,146	17.6
40,000	6,605	16.5	8,170	20.4
45,000	8,935	19.9	10,610	23.6
50,000	11,265	22.5	13,155	26.3
60,000	15,932	26.6	18,102	30.2
75,000	22,875	30.5	25,180	33.6
100,000	34,656	34.7	37,511	37.5

AFTER

Income	Income Taxes	As % of Income	Total Taxes	As % of Income
12,500	-1,166	%	-1,118	%
15,000	-748		-593	
20,000	414	2.1	864	4.3
25,000	1,576	6.3	2,296	9.2
30,000	2,695	9.0	3,765	12.6
35,000	4,693	13.4	6,318	18.1
40,000	6,488	16.2	8,578	21.4
45,000	8,738	19.4	11,293	25.1
50,000	10,988	22.0	13,878	27.8
60,000	15,506	25.8	18,926	31.5
75,000	22,416	29.9	26,026	34.7
100,000	34,189	34.2	38,419	38.4

DIFFERENCE

Income	Income Taxes	Percentage Change	Total Taxes	Percentage Change
12,500	0	0.0%	-212	-23.4%
15,000	0	0.0	-185	-45.3
20,000	0	0.0	-110	-11.3
25,000	0	0.0	-220	-8.7
30,000	0	-0.0	-75	-2.0
35,000	-53	-1.1	172	2.8
40,000	-117	-1.8	408	5.0
45,000	-197	-2.2	683	6.4
50,000	-277	-2.5	723	5.5
60,000	-426	-2.7	824	4.6
75,000	-459	-2.0	846	3.4
100,000	-467	-1.3	908	2.4

* Note: Total taxes are federal and provincial income taxes and net federal sales tax.

TABLE 7

SALES TAX CREDIT THRESHOLD AND DISAPPEARING POINT, BY FAMILY TYPE AND SIZE AND LOW INCOME LINE, 1991

Family Type	Maximum GST Credit	Threshold	Low-Income Line*	Difference**	Disappearing Point
single adult	$415	$24,800	$14,900	$9,900	$33,100
single parent					
one child	690	24,800	20,200	4,600	38,600
two children	790	24,800	25,700	-900	40,600
three children	890	24,800	29,600	-4,800	42,600
couple					
no children	550	24,800	20,200	4,600	35,800
one child	650	24,800	25,700	-900	37,800
two children	750	24,800	29,600	-4,800	39,800
three children	850	24,800	32,300	-7,500	4,180
four children	950	24,800	35,100	-10,300	43,800

Note: *protected low-income line for city of 500,000 or more in 1991
**difference is threshold minus low-income line.

Figure A
MAXIMUM SALES TAX CREDITS,
COUPLE WITH TWO CHILDREN, 1991-2001

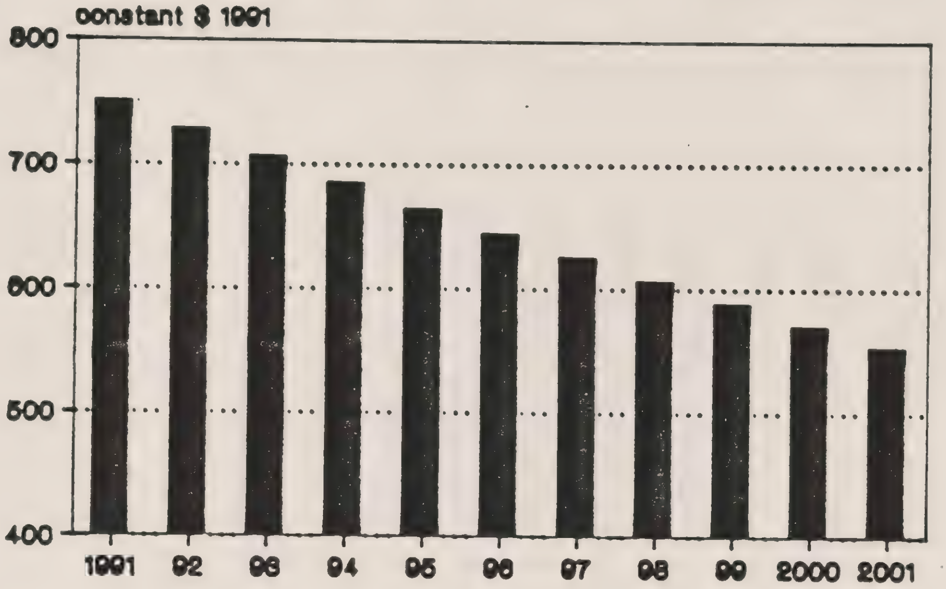

Figure B
INCOME THRESHOLD FOR SALES TAX CREDITS,
COUPLE WITH TWO CHILDREN, 1991-2001

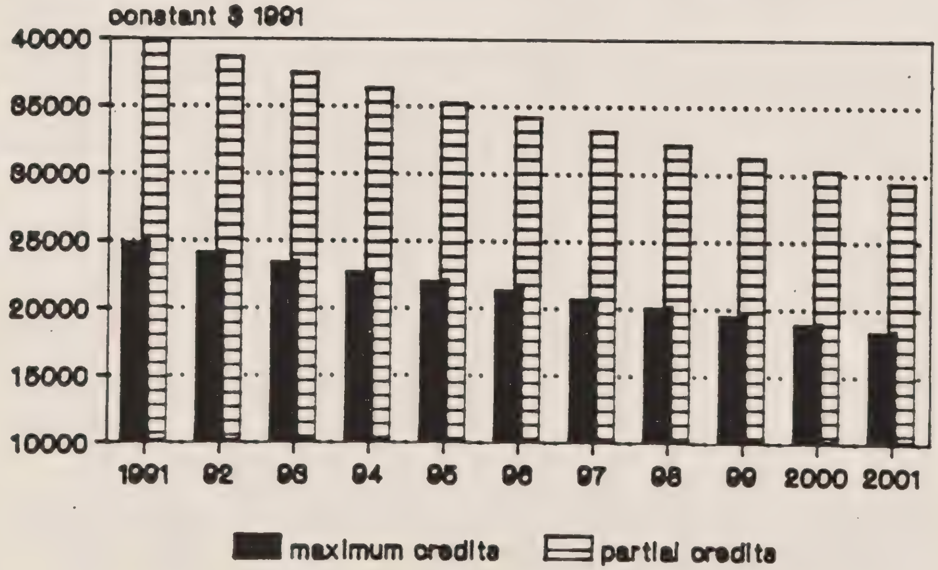

Figure C

SALES TAX CREDIT, SINGLE WORKER WITH INCOME OF $12,500, 1991-2001

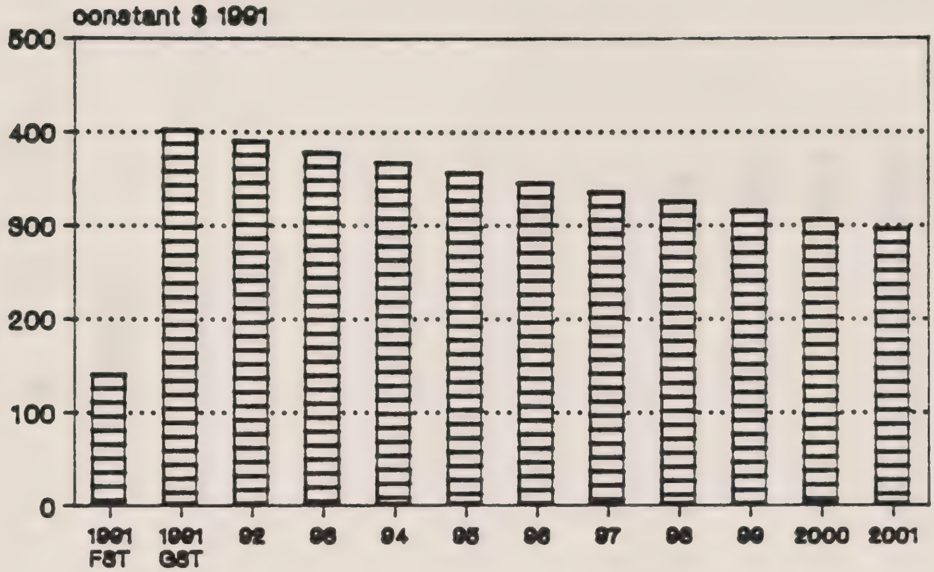

Figure D

SALES TAX CREDIT AS % OF SALES TAX, SINGLE WORKER WITH INCOME OF $12,500

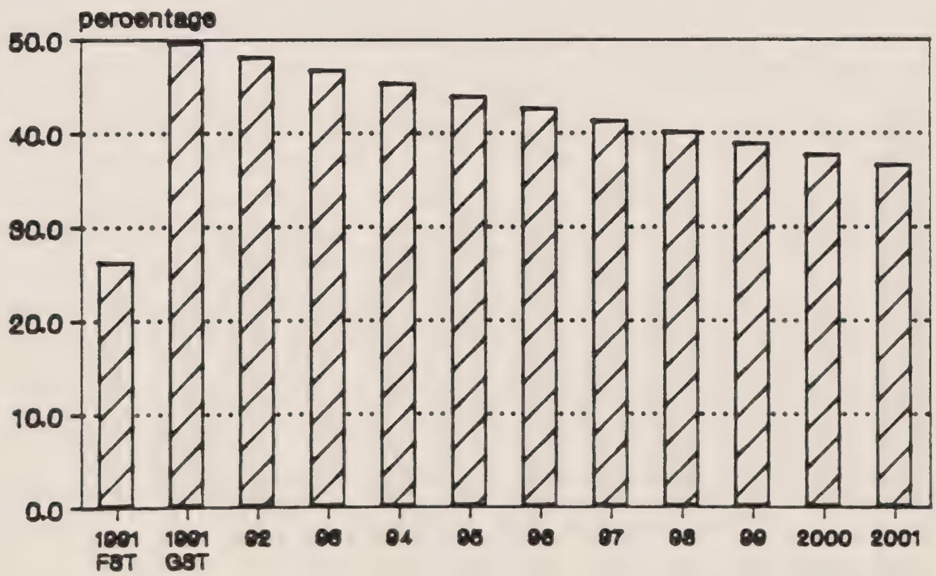

Figure E

FEDERAL SALES TAX AFTER CREDITS,
SINGLE WAGE-EARNER, INCOME OF $12,500

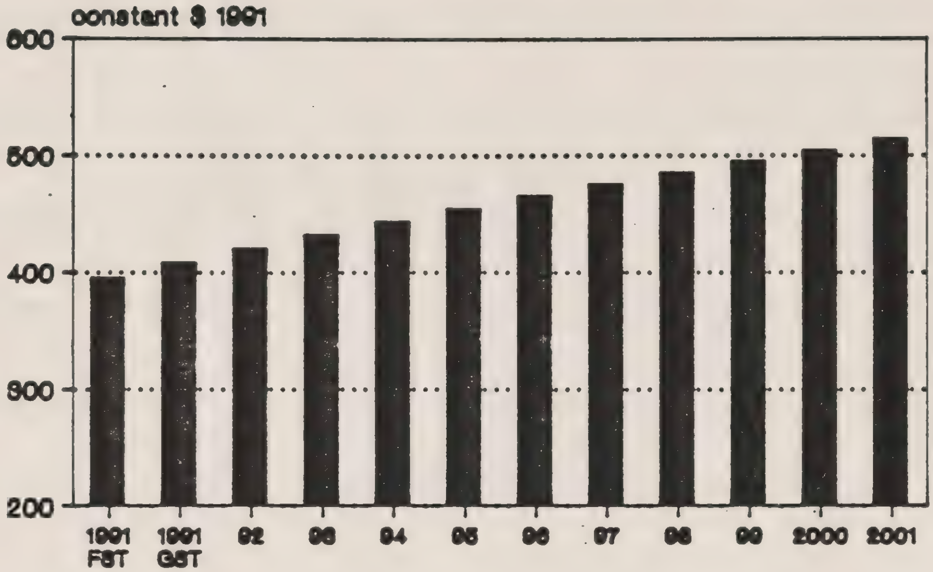

Figure F

FEDERAL SALES TAXES AS % OF INCOME,
SINGLE WAGE-EARNER, INCOME OF $12,500

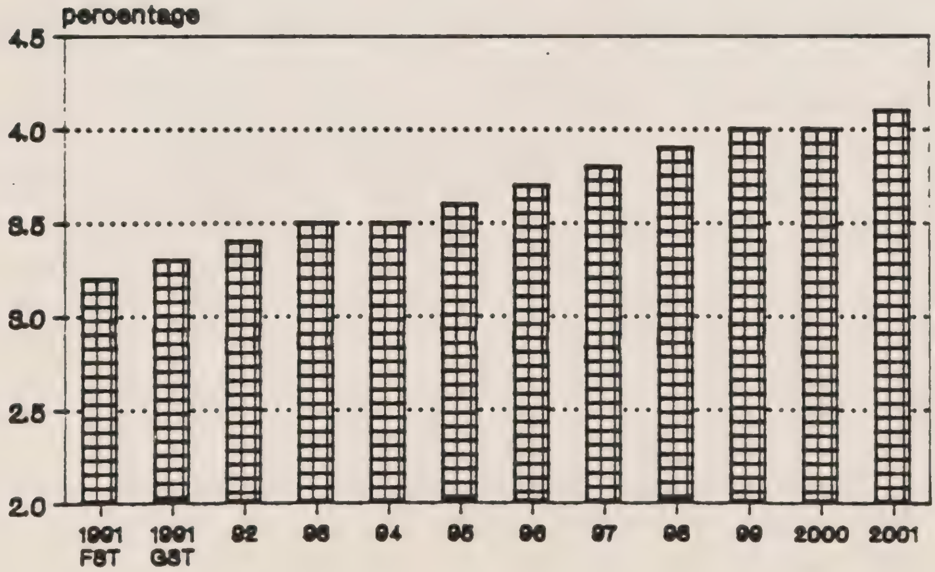

Figure G
SALES TAX CREDIT, SINGLE PENSIONER WITH INCOME OF $12,500, 1991-2001

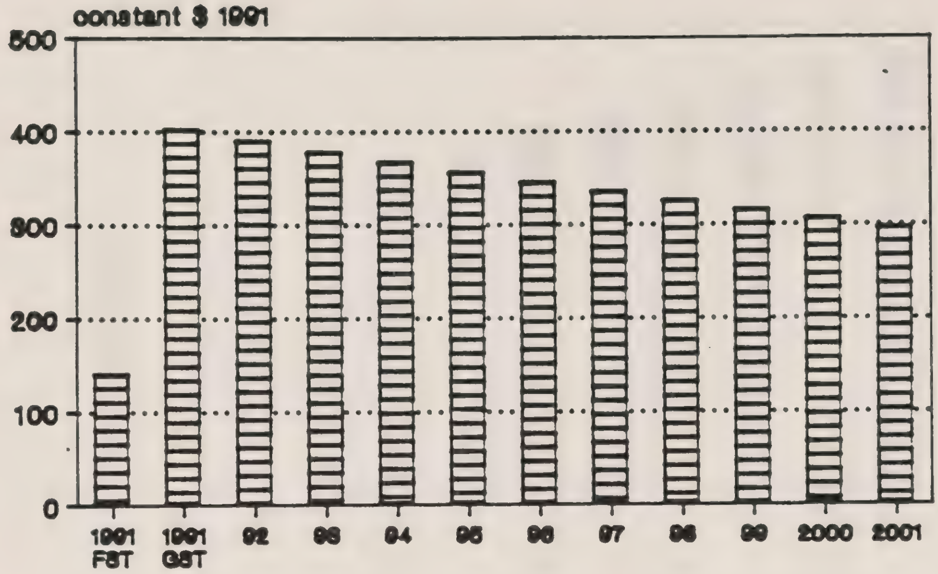

Figure H
SALES TAX CREDIT AS % OF SALES TAX, SINGLE PENSIONER WITH INCOME OF $12,500

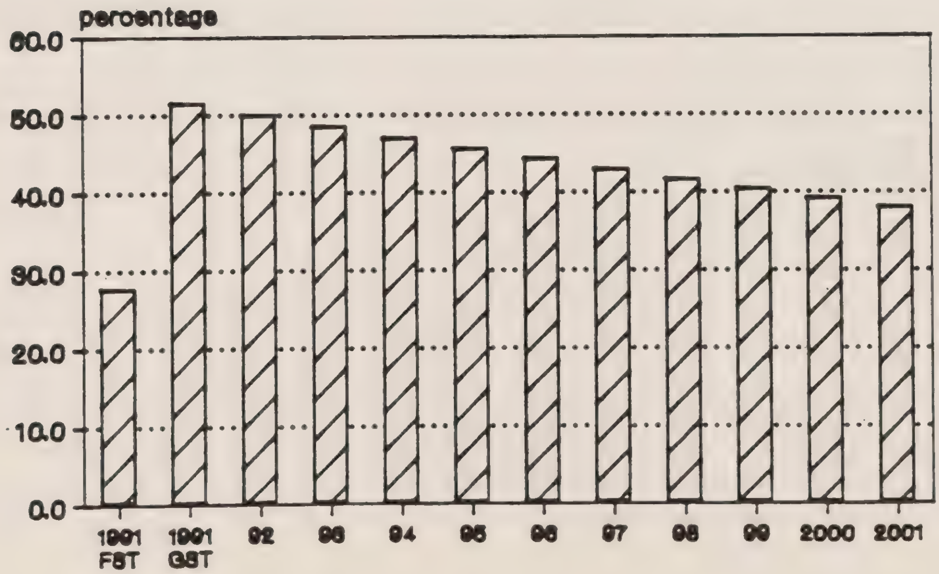

Figure I

FEDERAL SALES TAX AFTER CREDITS, SINGLE PENSIONER, INCOME OF $12,500

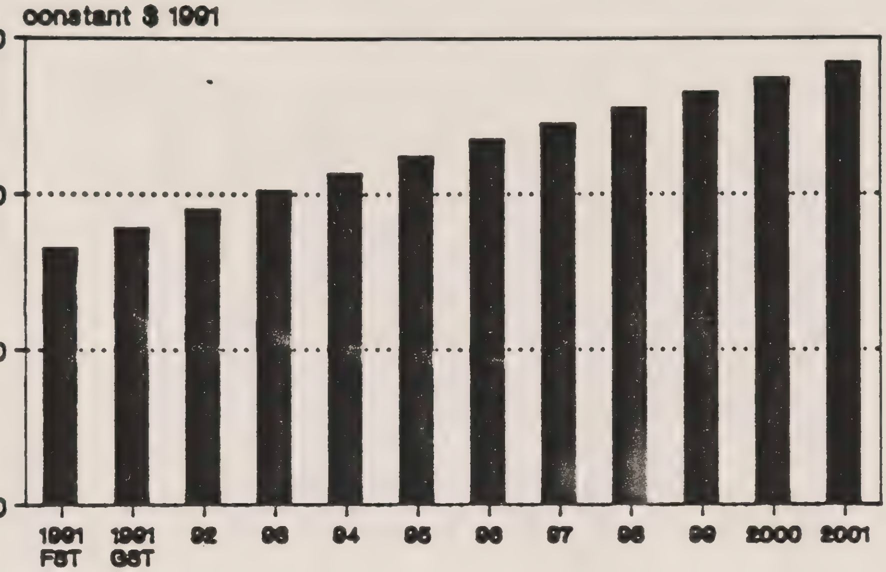

Figure J

FEDERAL SALES TAXES AS % OF INCOME, SINGLE PENSIONER, INCOME OF $12,500

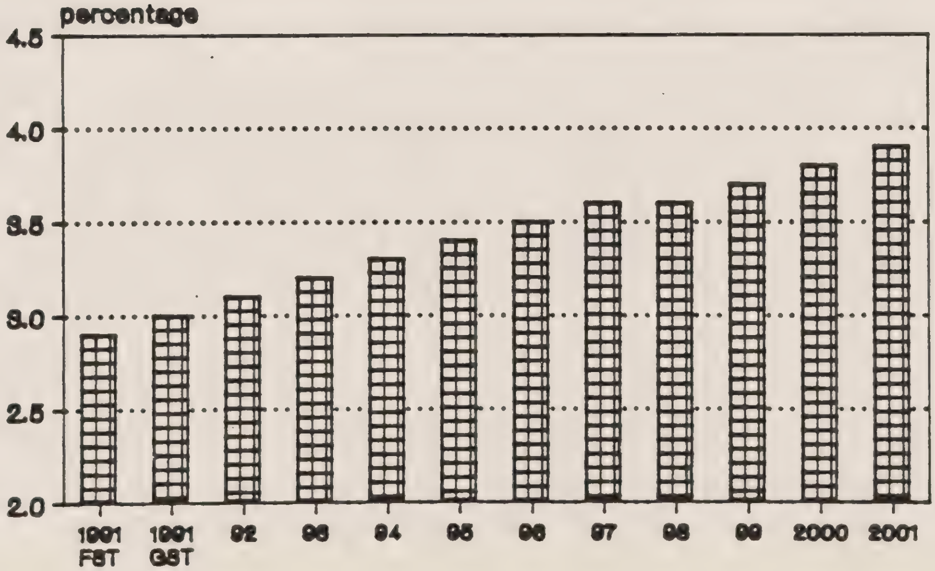

Figure K

SALES TAX CREDIT, ONE-EARNER COUPLE WITH TWO CHILDREN AND INCOME OF $15,000

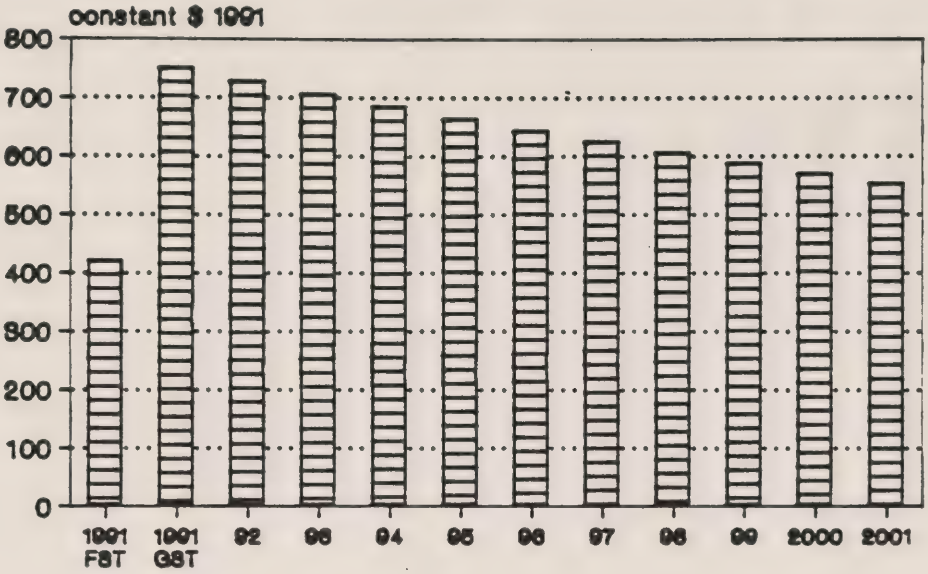

Figure L

SALES TAX CREDIT AS % OF SALES TAX, ONE-EARNER COUPLE WITH INCOME OF $15,000

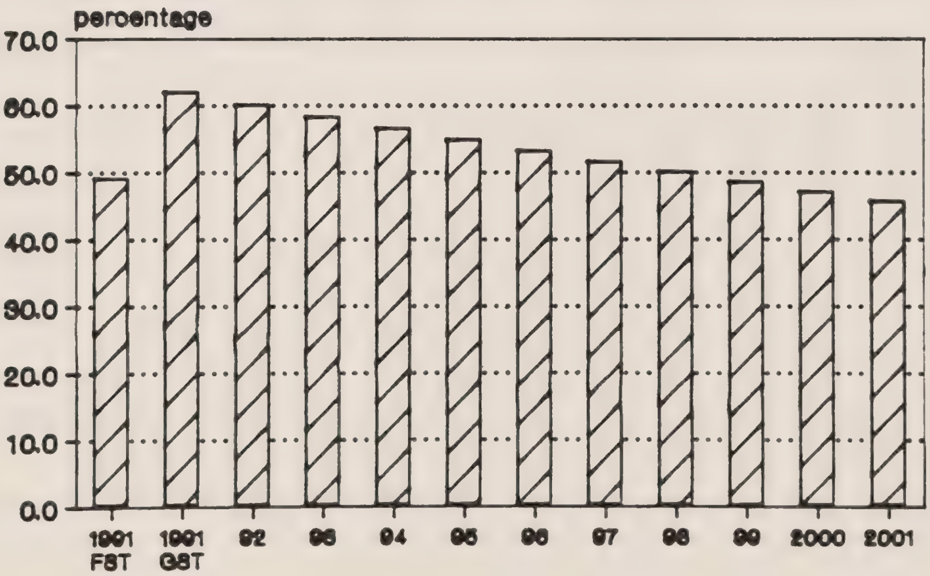

Figure M

FEDERAL SALES TAX AFTER CREDITS,
ONE-EARNER COUPLE, INCOME OF $15,000

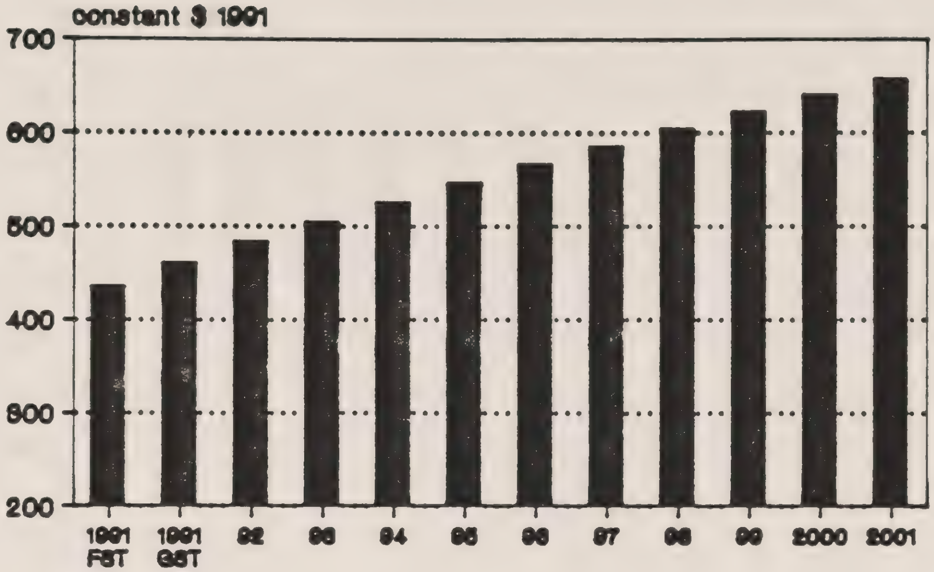

Figure N

FEDERAL SALES TAXES AS % OF INCOME,
ONE-EARNER COUPLE, INCOME OF $15,000

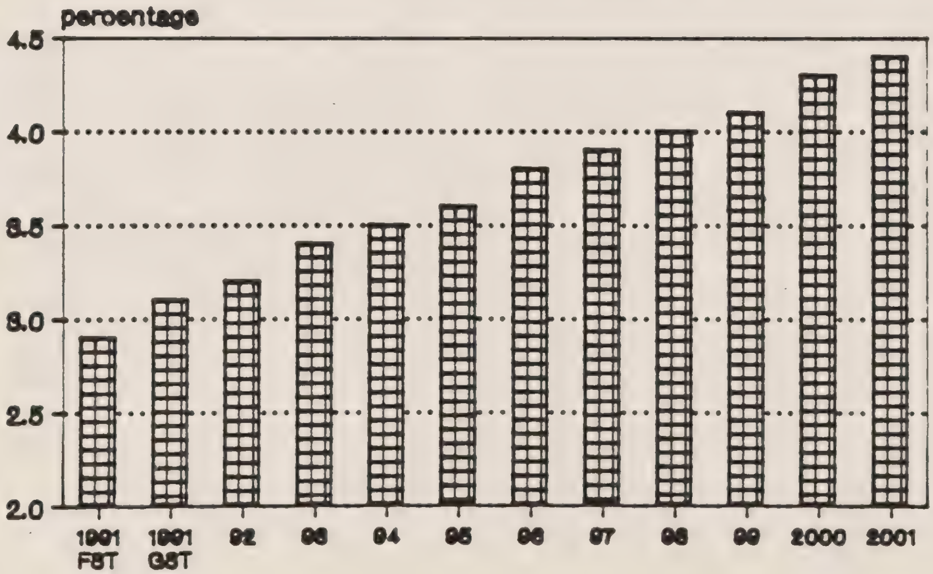

Figure O

SALES TAX CREDIT, TWO-EARNER COUPLE WITH TWO CHILDREN AND INCOME OF $15,000

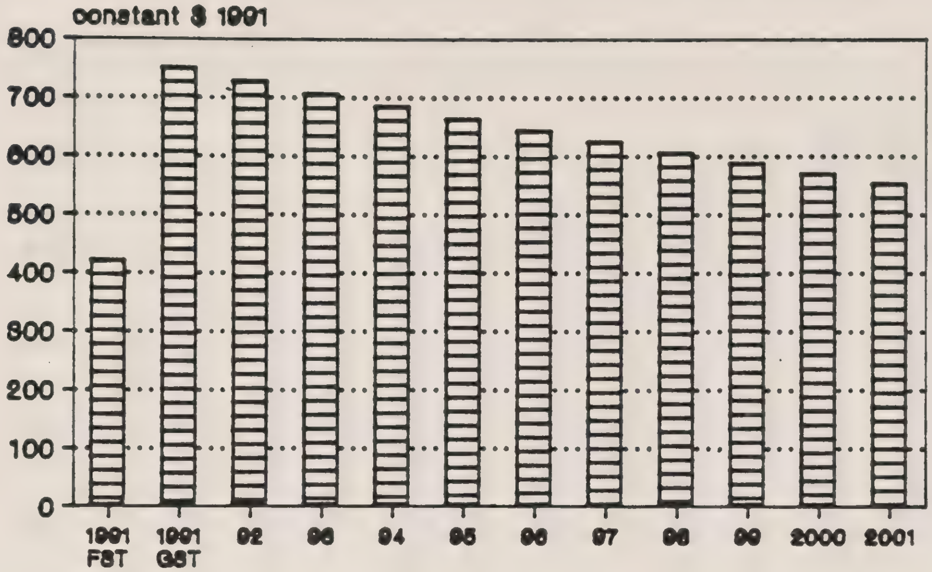

Figure P

SALES TAX CREDIT AS % OF SALES TAX, TWO-EARNER COUPLE WITH INCOME OF $15,000

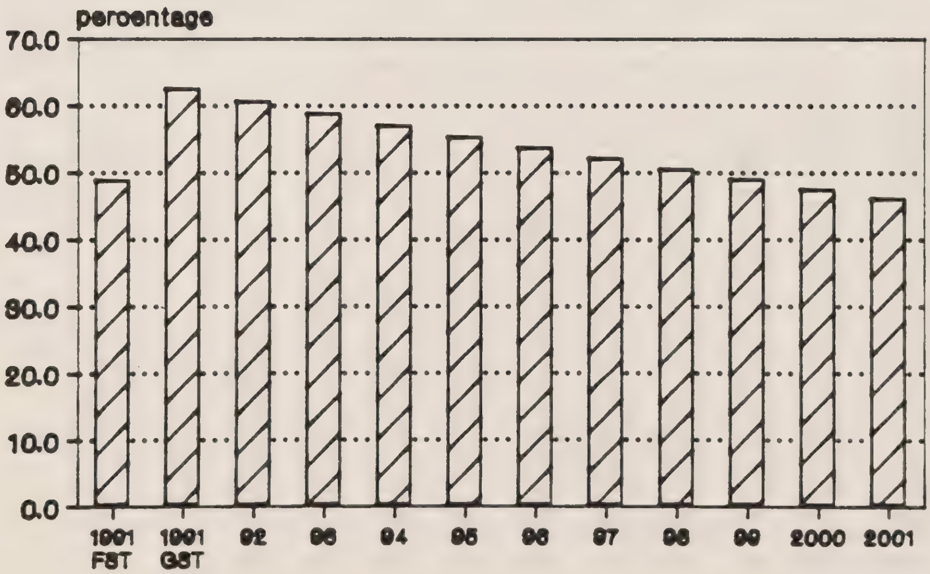

Figure Q

FEDERAL SALES TAX AFTER CREDITS,
TWO-EARNER COUPLE, INCOME OF $15,000

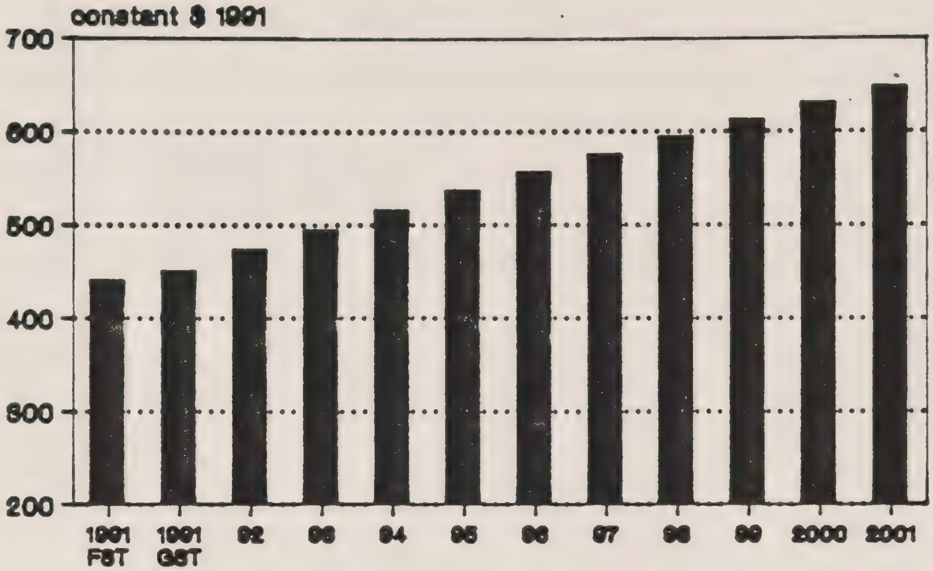

Figure R

FEDERAL SALES TAXES AS % OF INCOME,
TWO-EARNER COUPLE, INCOME OF $15,000

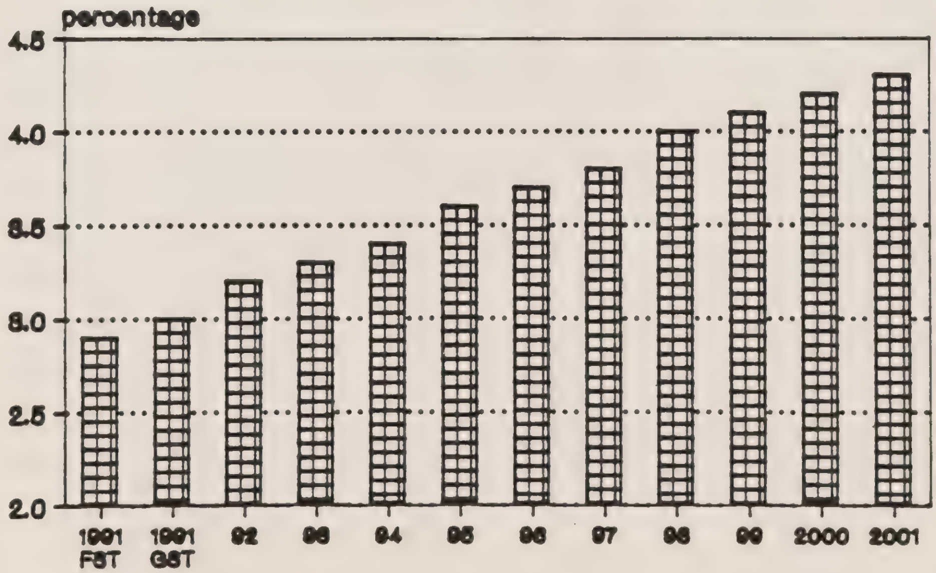

Figure S

SALES TAX CREDIT, SINGLE PARENT WITH TWO CHILDREN AND INCOME OF $15,000

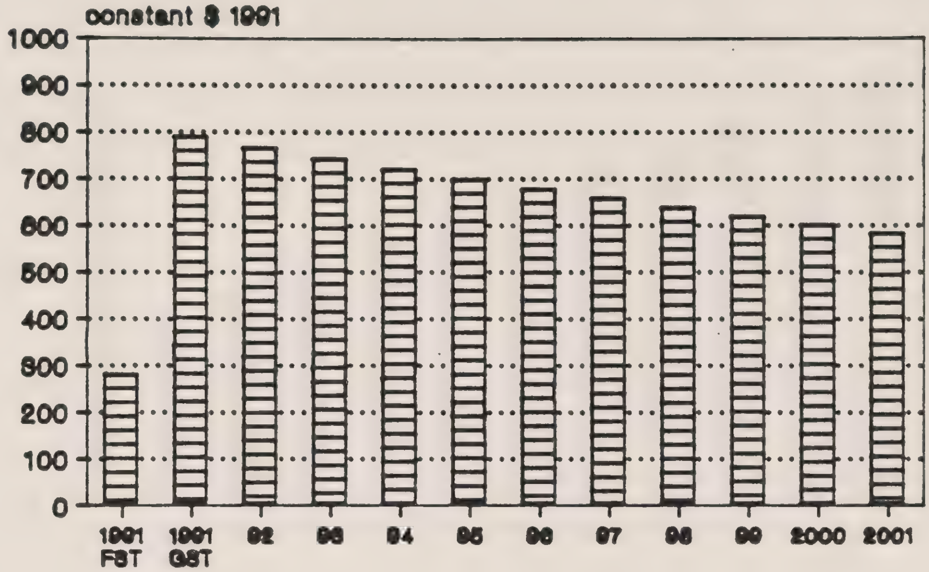

Figure T

SALES TAX CREDIT AS % OF SALES TAX, SINGLE PARENT WITH INCOME OF $15,000

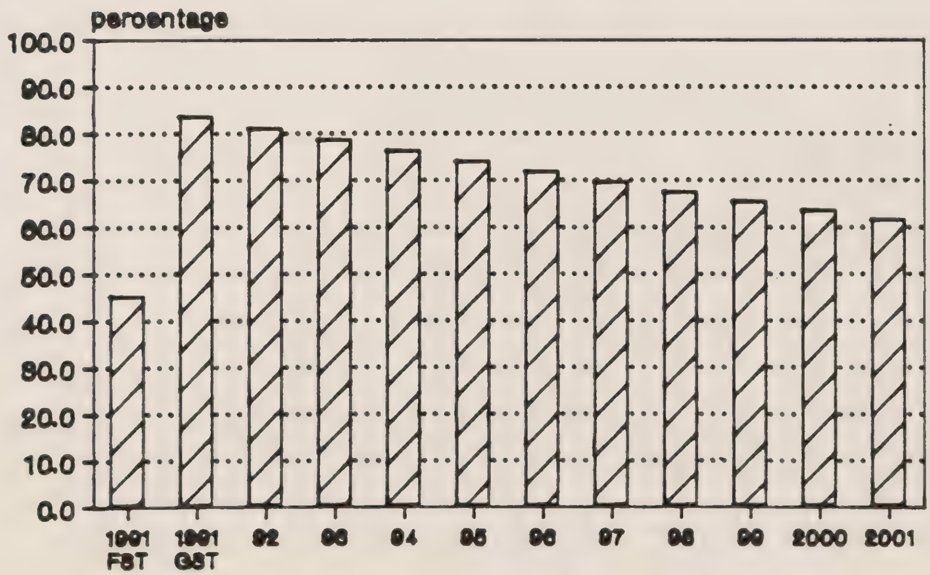

Figure U
FEDERAL SALES TAX AFTER CREDITS,
SINGLE PARENT WITH INCOME OF $15,000

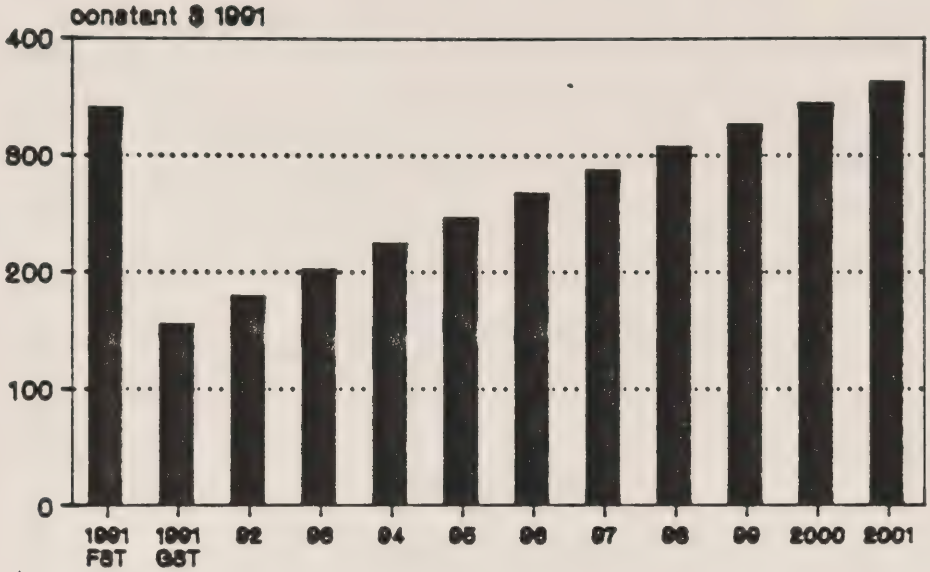

Figure V
FEDERAL SALES TAXES AS % OF INCOME,
SINGLE PARENT WITH INCOME OF $15,000

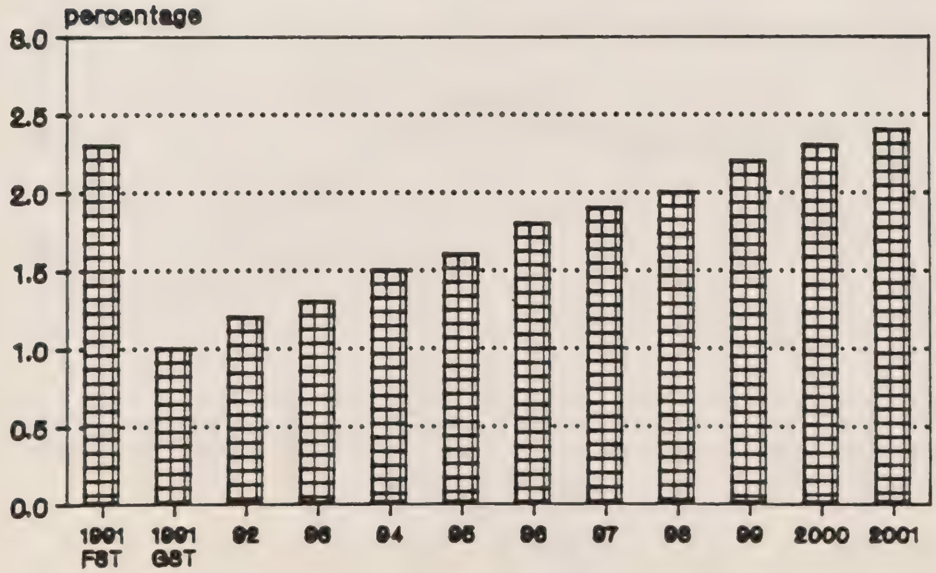

Figure W

FST AND GST, SINGLE WAGE-EARNERS UNDER AGE 65, BY INCOME, 1991

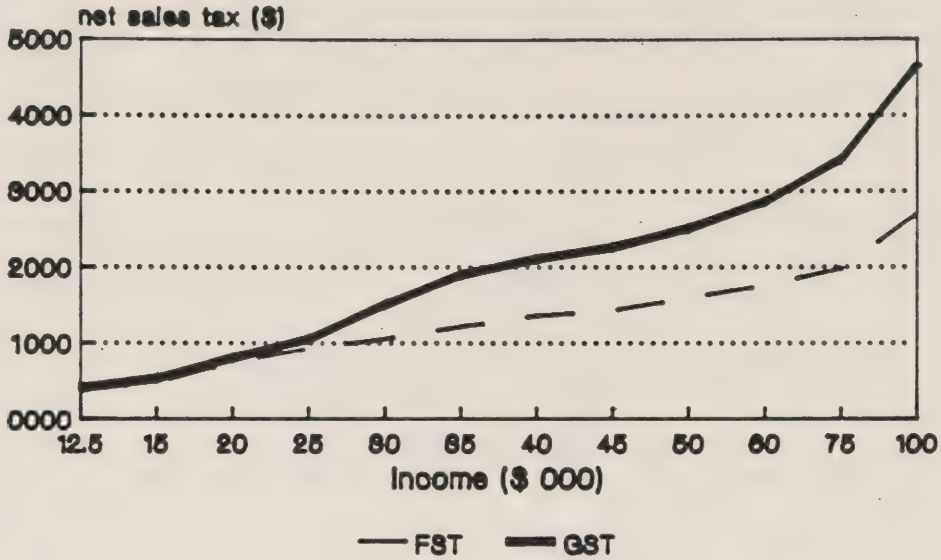

Figure X

FST AND GST AS % OF INCOME, SINGLE WAGE-EARNERS UNDER AGE 65, 1991

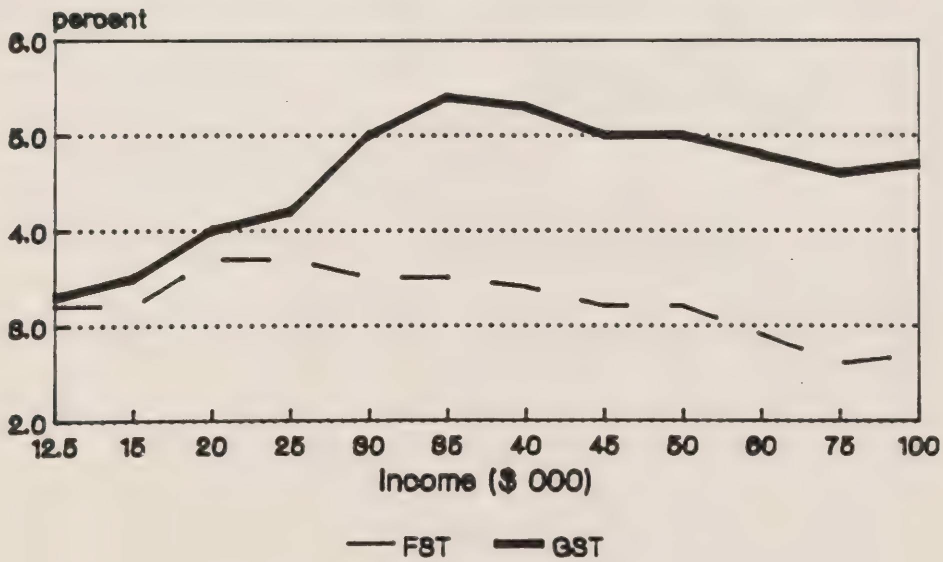

Figure Y

FST AND GST, TWO-EARNER COUPLES WITH TWO CHILDREN, BY INCOME, 1991

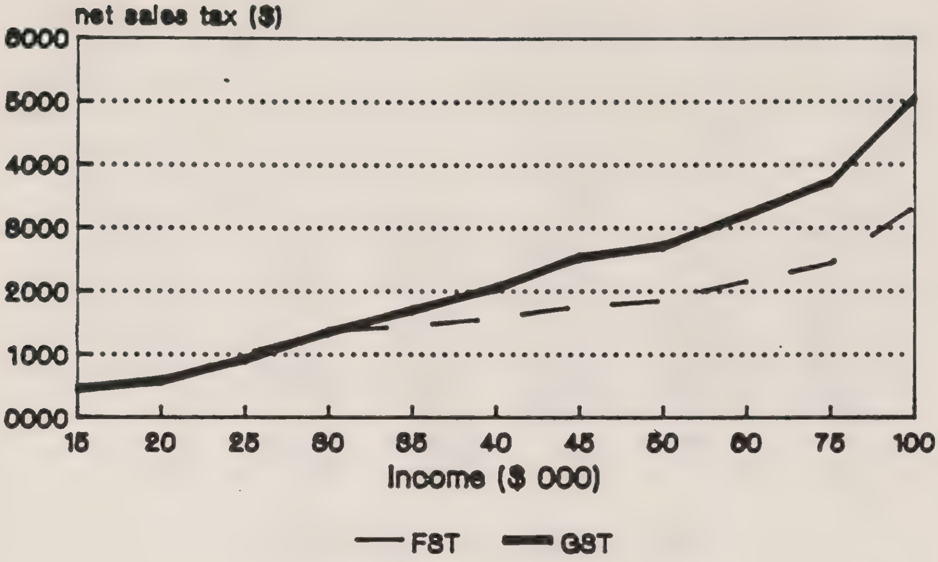

Figure Z

FST AND GST AS % OF INCOME, TWO-EARNER COUPLES WITH TWO CHILDREN, 1991

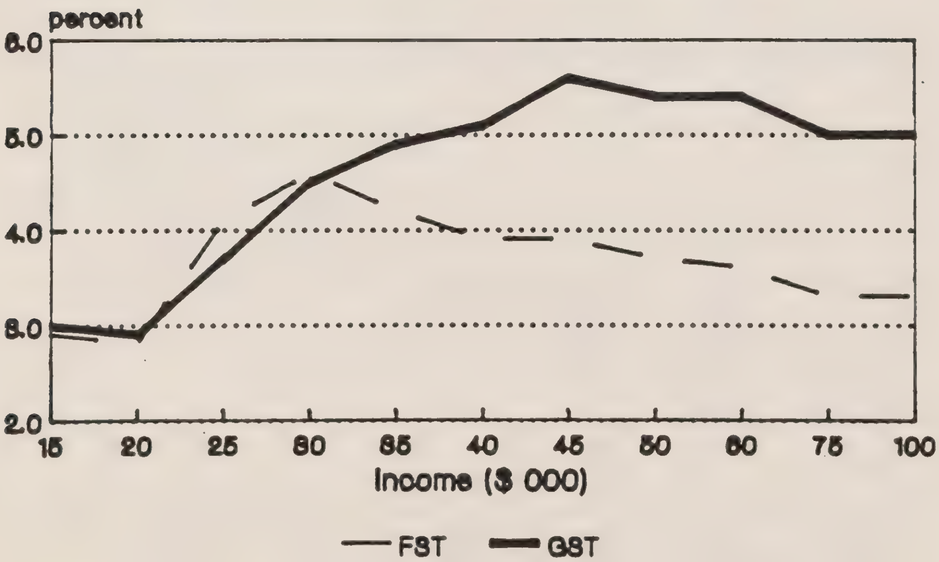

Figure AA
THRESHOLD FOR SALES TAX CREDIT VERSUS POVERTY LINE, BY FAMILY SIZE, 1991

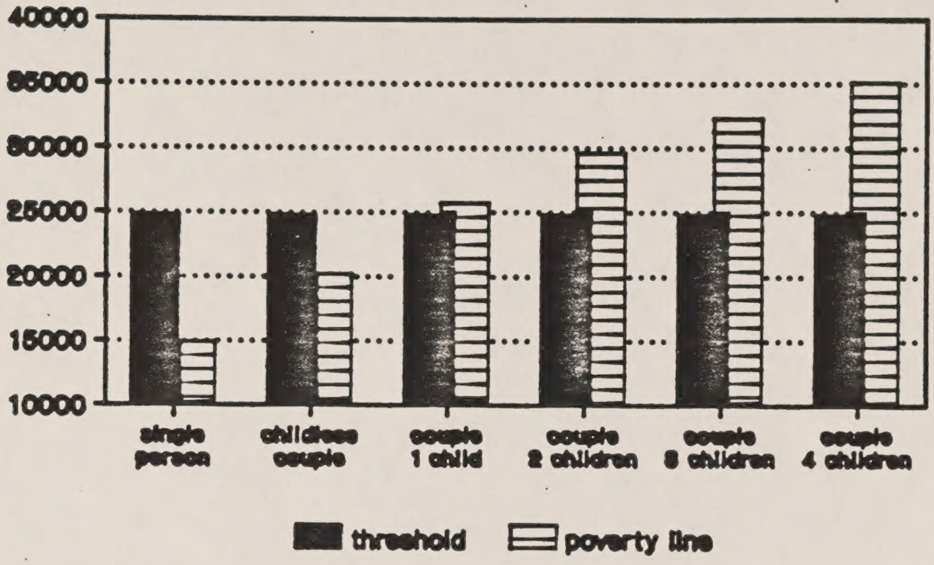

Figure AB
SALES TAX CREDIT THRESHOLD MINUS POVERTY LINE, BY FAMILY SIZE, 1991